clean energy green future

SaskEnergy

2007 Annual Report

Vision Mission Values

vision

We create superior value through innovative energy solutions.

mission

values

Safety We never compromise the safety of our employees and the public. **Community** We embrace our social responsibility by developing a diverse workforce, supporting our communities and investing in our environment. **Recognition** We take time to recognize the individual and team contributions of our employees. **Accountability** We are accountable for our decisions, our actions and the results. **Spirit** We create a positive, welcoming and enjoyable work environment that allows employees to achieve their career goals and life balance. **Communication** We have open, honest and respectful communication that builds strong relationships. **Integrity** We are honest, respectful and apply high ethical standards in everything we do.

Table of Contents

2 SaskEnergy – Clean Energy, Green Future
3 Corporate Profile
5 Letter of Transmittal
6 Chair's Message
7 President's Message
9 Financial and Operating Highlights
10 Five-Year Operating Summary – Distribution
11 Five-Year Operating Summary – Transmission
12 SaskEnergy's New Strategic Plan

17 Management's Discussion and Analysis
17 Introduction
18 Our People
21 Our Service
24 Our Growth
26 Our Future
30 Understanding Our Business
32 Consolidated Financial Results
38 Subsidiaries
41 Liquidity and Capital Resources
43 Risk Management
48 Critical Accounting Policies and Estimates

49 Consolidated Financial Statements
49 Management's Responsibility for Financial Statements
50 Auditors' Report
51 Consolidated Statement of Financial Position
52 Consolidated Statement of Income and Retained Earnings
53 Consolidated Statement of Comprehensive Income
53 Consolidated Statement of Accumulated Other Comprehensive Loss
54 Consolidated Statement of Cash Flows
55 Notes to the Consolidated Financial Statements

72 Corporate Governance
72 Board of Directors and Executive Committee
75 Corporate Governance Scorecard

84 Glossary of Key Success Measures
90 Supplementary Information

SaskEnergy – Clean Energy, Green Future

At SaskEnergy, "Clean Energy, Green Future" is our commitment to providing Saskatchewan with the energy it needs to support economic growth – but to do so in the right way.

"Clean Energy, Green Future" means we provide customers with the cleanest-burning fossil fuel possible. But we're taking our commitment a step further by changing the way our customers use energy. Our "Clean Energy, Green Future" tag line is designed to encourage customers to preserve Saskatchewan's natural gas resource by using our product more efficiently. We offer many energy efficiency programs, such as the SaskEnergy Home Energy Efficiency Project, to stretch our customers' energy dollars further – and we build long-term relationships that are at the heart of our customer service philosophy. And through environmental initiatives such as flare gas capture, we are providing a green future for our children.

In today's fast-paced economy, we are experiencing core system growth unseen in years. Our employees are working hard every day to meet those needs and provide industry-leading customer service while never compromising on safety.

Our employees are also using their expertise to help SaskEnergy grow its business in other ways. We are expanding natural gas storage services to meet the current and future energy demands of Saskatchewan's residential, commercial and industrial sectors. Strategic investments in flare gas processing are already achieving environmental and financial benefits for us and our business partners. And our Green Future involves using tomorrow's technology today to bring to market renewable natural gas energy sources.

By making positive choices we grow as a company, always balancing reliability, service and respect for our customers. At the end of each day, we have to be proud of our actions and how we helped our customers achieve success.

While it is easy to state a slogan – "Clean Energy, Green Future" – it is the way we put these words into practice that makes the difference.

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN
SASKENERGY INCORPORATED
TransGas Limited
Transmission and Storage
Bayhurst Gas Limited
Natural Gas in Storage/ Royalty Interest
Many Islands Pipe Lines (Canada) Limited
Interprovincial Transmission
Swan Valley Gas Corporation
Swan Valley Distribution Utility (Manitoba)
SaskEnergy International Incorporated
Saskatchewan First Call Corporation
Underground Facility Screening & Notification Service
SaskEnergy Nova Scotia Holdings Ltd.
50.1% Equity Interest in Heritage Gas Limited
Bayhurst Energy Services Corporation
Energy Services Company
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
SaskEnergy Chilean Holdings Limitada
30% Equity Interest in Chilean Natural Gas Distribution Company Gas Sur S.A. (Gas Sur)
40.1% Equity Interest in Mexican Natural Gas Transmission Company IGASAMEX USA Ltd. (IGASAMEX)

SaskEnergy Incorporated (also referred to as SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel and SGI) and various commercial investments.

SaskEnergy's main business is the natural gas distribution utility. SaskEnergy owns and operates the distribution utility which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates.

SaskEnergy's corporate structure consists of SaskEnergy (the Crown corporation) plus seven wholly owned subsidiaries as follows:

TransGas Limited (TransGas) owns and operates the transmission utility and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities which are integrated with the transmission pipeline system. TransGas' transmission rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business,

operational and rate matters are openly discussed with a representative group of customers.

Many Islands Pipe Lines (Canada) Limited (MIPL) is the transmission company that owns 11 transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas system. MIPL is regulated by the National Energy Board.

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta.

Bayhurst Energy Services Corporation (BESCO), a wholly owned subsidiary of Bayhurst Gas Limited, was created in 2007 for the purpose of creating an energy services company. In 2007, BESCO purchased a 50 per cent interest in a natural gas processing plant in southeast Saskatchewan, which is operated through an unincorporated joint venture with ATCO Midstream Limited.

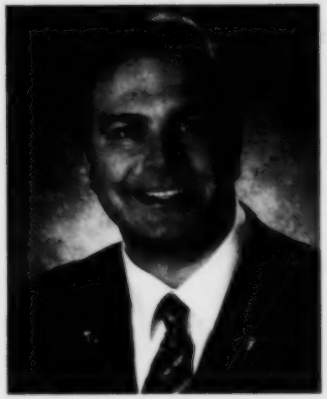
SaskEnergy International Incorporated (SEII) holds SaskEnergy's investments outside of Canada. SEII's primary focus is Chile and Mexico. SEII holds a 30 per cent equity interest in Gas Sur, S.A., a natural gas distribution company in Chile, as well as a 40.1 per cent equity interest in IGASAMEX USA Ltd., which owns a natural gas transmission service company in Mexico.

Swan Valley Gas Corporation (SVGC) owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC serves customers in the towns of Swan River, Benito, and Minitonas as well as a major industrial customer at Minitonas. SVGC is regulated by the Manitoba Public Utilities Board.

Saskatchewan First Call Corporation *(Sask 1st Call)* provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can contact *Sask 1st Call* to request the location of pipeline and non-pipeline-related facilities of its subscribers. *Sask 1st Call's* rate structure is intended to recover all operational costs and operate on a break-even basis.

SaskEnergy Nova Scotia Holdings Ltd. (SNSHL) holds SaskEnergy's 50.1 per cent equity interest in Heritage Gas Limited (Heritage Gas), a Nova Scotia natural gas distribution company. Heritage Gas began serving its first residential customers in 2004. Heritage Gas is regulated by the Nova Scotia Utility and Review Board.

Letter of Transmittal



March 31, 2008

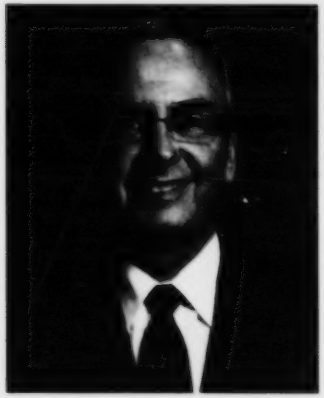
The Honourable Dr. Gordon Barnhart
Lieutenant Governor
Province of Saskatchewan

May it please Your Honour:

I respectfully submit the Annual Report of SaskEnergy Incorporated for the year ended December 31, 2007, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

Honourable Ken Cheveldayoff
Minister of Crown Corporations

Chair's Message



It is with great pleasure that I have accepted the opportunity to chair SaskEnergy's Board of Directors. This is truly an exciting time for our Province, which has the energy industry as one of its critical backbones. Through delivering the benefits of natural gas distribution, transmission and storage services to Saskatchewan, and working co-operatively with the private sector through initiatives like the SaskEnergy Network, the Corporation is playing an important role in nurturing economic growth. In 2007, I also particularly note the success SaskEnergy had in balancing the delivery of safe, reliable and cost-competitive service while operating a business with a strong focus on developing its people resources. I am also encouraged by the Corporation's strategic plan, which emphasizes pursuing growth and new opportunities within Saskatchewan's borders by leveraging its key strengths. My colleagues on the SaskEnergy Board are proud to inherit the stewardship of this company and are committed to using our talents to help the Management team, and indeed, the entire organization, build on its success in 2008 and beyond.

Sincerely,

Robert Pletch
Chair, SaskEnergy Board of Directors

President's Message

Welcome to our 2007 Annual Report, "Clean Energy, Green Future."

The 2007 Annual Report continues the evolution of strong and balanced corporate reporting that began in the last few years, with this year's discussion focusing extensively around the four strategic mandates ("Our People", "Our Service", "Our Growth" and "Our Future") that were formed as part of our new strategic plan. The strategic plan, which was developed co-operatively over an 18-month period under the leadership of our Senior Management team, had the active input of employees at different levels in the company at virtually every stage in its development. We are confident that it provides us an excellent roadmap for the next decade, as employees recognize that our success is inextricably linked to having sustainable performance in each of these four key strategic mandates. As a reader, you will notice our commitment to openly discussing our progress in these measures, to sharing our successes and to continuously improving our efforts – these are the hallmarks of a transparent company.

A growing Province and a thriving industry provide a solid foundation for our new plan, one that is positively impacting our core businesses, but which is also providing new opportunities for us to contribute by leveraging our expertise. We see the partnership approach, which we developed over the last decade through initiatives like the SaskEnergy Network, the TransGas Customer Dialogue process and recently through our joint venture flare gas initiative, as extremely important. These initiatives allow for joint efforts with the private sector to facilitate growth.

Consider the following supporting developments in 2007:

- More than 4,000 net new customers, in over 350 communities, were connected to the distribution network – by far the strongest growth since 1999;
- TransGas proposed a 25 per cent expansion in storage services by 2011 through the "Energy to Store" project, increasing to a total of 40.5 Petajoules of capacity;
- The joint venture purchase with ATCO Midstream Limited of the Kisbey Gas Gathering and Processing Facility (Kisbey Natural Gas Processing Plant) in southeast Saskatchewan was completed. This is a sound business opportunity which will result in added benefits to producers for an otherwise stranded commodity, and will reduce by 10 per cent the amount of natural gas flared in Saskatchewan;
- The possibility of diversifying our pipeline expertise through transmission of different products, like carbon dioxide, to contribute to climate change solutions within our Province.

The added dimensions of these sound Saskatchewan business ventures are being built off our focus on safe and reliable operations and service delivery of SaskEnergy/ TransGas. They are also in keeping with the "Green Future" theme of this year's report.

There is a national consensus on the need to reduce Greenhouse Gases for the future of our environment. Natural gas is the cleanest burning of the existing fossil

fuels and we have established a solid track record of promoting the use of natural gas in a responsible and energy-wise manner.

First, our existing customers are becoming more energy efficient, with our active encouragement. The benefits of new housing stock are being supported through a number of programs which are either being administered directly by or supported through SaskEnergy. For example, over 20,000 Saskatchewan homeowners have taken advantage of programs like the EnerGuide for Houses Grant Program, the ENERGY STAR® Prime Rate Loan Program, the Programmable Thermostat Rebate and the Provincial Sales Tax Rebate on new furnaces.

Second, new customers are also getting more energy efficient. Our La Ronge project will allow some 800 customers to receive the benefits of natural gas, replacing more costly and environmentally harsher forms of energy like coal, oil and propane. We also offer a commercial boiler program for businesses that captures efficiency gains of up to 30 per cent – a win-win for Saskatchewan businesses and the environment.

Third, we are getting more energy efficient in our operations, through environmental programs which range from initiatives like right-sizing our vehicle fleet to direct programs aimed at reducing Greenhouse Gases and other pollutants in our operations.

At our company, it is about a mindset of focusing on service delivery and finding cost-effective energy solutions for our customers. I am proud to indicate that these efforts are being duly recognized. I was very gratified to learn that in a 2007 national customer service survey of 10 Canadian electric and natural gas utilities, SaskEnergy was chosen as the leading company, based upon attributes such as our accessibility, the ease of doing business with us, our environmental work and our social responsibility.

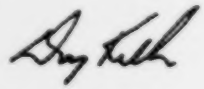
Our work in the community, much like our work as a business, is founded on a partnership approach that is delivered Province-wide. We participated in 1,288 projects in 317 communities, using not just the financial support but often the effort of our SaskEnergy volunteers. We look for projects where we can leverage our investment to help the organizations attract even more funding, such as our initiatives with KidSport™ Saskatchewan and the Heart and Stroke Foundation of Saskatchewan.

Good times also create their own challenges and like all strong companies, we too are faced with the need to deliver solutions. We are in an increasingly competitive labour market, and "Our People" strategies as outlined in our strategic plan are aimed at retaining and attracting our talent by delivering competitive compensation and a welcoming learning environment for employees. We need to keep increasing the Aboriginal and diverse portions of our workforce. Our partnerships with the Dumont Technical Institute and the Saskatchewan Indian Institute of Technologies are delivering entry level employees in the trades to our company.

All of these realities constantly remind us that there is no room for complacency in the midst of "good times." This is why we put our efforts behind a strategic direction, action plans and "stretch" targets that we know will serve us well. We will adjust and modify these efforts as we scan the environment and move forward, but the strategic mandates of "Our People", "Our Service", "Our Growth" and "Our Future" will remain. We look forward to working with our Board of Directors to contribute to building our Province.

Lastly, I say a genuine heartfelt thank you to the two most important groups to our company – our customers and our employees. We recognize that we provide an essential service, but without our customers, there can be no company. And without our skilled employees, in more than 50 locations across Saskatchewan, we could not deliver service. As your President, I am both proud and humbled to be part of this organization. Thank you for your commitment in 2007 and beyond.

Sincerely,



Doug Kelln
President and Chief Executive Officer

Financial and Operating Highlights

CONSOLIDATED FINANCIAL INFORMATION*	2007	2006	2005	2004	2003
($ millions)					
Commodity sales	400	389	376	387	375
Gas marketing sales	485	594	644	327	272
Delivery revenue	167	153	156	162	165
Transportation and storage revenue	88	88	88	88	81
Other	31	30	35	30	30
Total revenue	1,171	1,254	1,299	994	923
Commodity cost of gas sold	373	395	365	349	402
Gas marketing cost of gas sold	450	558	599	290	235
Operating expenses	260	248	258	247	245
Total expenses	1,083	1,201	1,222	886	882
Net income	88	53	77	108	41
Dividend	53	35	29	70	27
Total assets	1,411	1,327	1,371	1,286	1,235
Property, plant and equipment – net	978	955	947	949	941
Capital expenditures	100	71	59	68	79

OPERATING STATISTICS	2007	2006	2005	2004	2003
Distribution volumes *(petajoules)*					
Residential	30	29	30	32	33
Commercial	29	27	28	29	30
Farm	3	3	4	4	4
Industrial	70	66	66	69	70
TOTAL	132	125	128	134	137
Transmission volumes *(petajoules)*					
Domestic	208	204	201	211	208
Export	121	155	162	147	146
TOTAL	329	359	363	358	354
Number of customers					
Distribution	336,512	332,148	329,240	327,586	325,504
Transmission	129	124	121	108	115

*Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

Five-Year Operating Summary – Distribution

	2007	2006	2005	2004	2003
Sales in million cubic metres[1]	3,498	3,339	3,411	3,607	3,686
Residential annual average usage *(cubic metres)*	3,025	2,873	3,060	3,287	3,420
Degree days[2]	5,700	5,345	5,577	5,844	5,817
PIPELINE					
(kilometres)					
Distribution Utility					
SaskEnergy	66,340	66,043	65,872	65,712	65,559
Swan Valley Gas Corporation	120	120	120	120	120
TOTAL	66,460	66,163	65,992	65,832	65,679

[1]Retail, industrial and natural gas marketing.

[2]A unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year, the degree days are 5,691.)

Five-Year Operating Summary – Transmission

	2007	2006	2005	2004	2003
Peak day natural gas flows *(petajoules)*	1.49	1.53	1.38	1.48	1.46
Date of peak day flow	Feb. 14	Feb.16	Jan.15	Jan. 27	Jan. 22
Storage cavern sites	8	8	8	7	7
Storage caverns	26	25	24	22	23
Storage field sites	2	2	2	2	2
Producing field sites	1	1	1	1	1
PIPELINE					
(kilometres)					
TransGas Limited					
Transmission	13,573	13,528	13,482	13,412	13,358
Gathering	197	197	188	188	187
Many Islands Pipe Lines (Canada) Limited	435	435	435	435	435
Bayhurst Gas Limited	113	92	92	92	92
TOTAL	14,318	14,252	14,197	14,127	14,072
COMPRESSOR STATIONS					
TransGas Limited	22	22	23	22	22
Many Islands Pipe Lines (Canada) Limited	1	1	1	1	1
Bayhurst Gas Limited	4	3	3	3	3
TOTAL	27	26	27	26	26
COMPRESSION HORSEPOWER					
TransGas Limited	82,200	82,200	88,325	93,550	93,550
Many Islands Pipe Lines (Canada) Limited	–	–	–	–	4,000
Bayhurst Gas Limited	6,835	6,300	6,300	6,300	6,300
TOTAL	89,035	88,500	94,625	99,850	103,850

SaskEnergy's New Strategic Plan

In 2007, SaskEnergy put a new strategic plan into action that was developed to guide the company into a successful and prosperous future.

The strategic plan outlines a new vision and mission for the company and sets forth seven values and 40 key success measures, under four critical strategic mandates: Our People, Our Service, Our Growth, Our Future. SaskEnergy's strategic mandates are linked, and together help the company achieve its vision and mission as an organization. These mandates also help employees connect their daily activities to the strategic plan and understand how their work impacts SaskEnergy's direction.

Vision

We create superior value through innovative energy solutions.

- "Our People" signals that SaskEnergy's future success is dependent upon an engaged, productive workforce.
- "Our Service" represents the core strengths of the company's business – distribution, transmission, and storage – and the dedication to serving all customers safely and reliably.
- "Our Growth" is focused on leveraging our distribution, transmission and storage expertise as well as working with the private sector to build Saskatchewan's energy industry.
- "Our Future" recognizes the company's commitment to ethical and sustainable operations, to make the company, the community and the environment stronger for the benefit of future generations.

Key action items were developed to support each of the strategic mandates. These specific and measurable activities chart the Corporation's progress and provide a roadmap for the future. The following are examples of corporate achievements that reflect the action items identified for 2007:

SaskEnergy's New Strategic Plan – Corporate Highlights

OUR PEOPLE

Uncompromised Safety – SaskEnergy enhanced its Safety Stand Down sessions, which were held February 26 to March 1, 2007. These meetings, which were led by the Executive team, fostered a culture of safety excellence by means of employee recognition and promoting awareness. In 2007, 365 SaskEnergy and TransGas employees were recognized for their safe driving performance. Also, six workgroups – TransGas Engineering & Operations, Materials Management, Prince Albert Customer Service, Kindersley Customer Service, Swift Current and Moose Jaw – were recognized for achieving zero medical aids injuries, zero lost time injuries and zero preventable collisions for 12 consecutive months. The Corporation also refocused its Driver Recognition and Awareness Program to encourage personal and driver safety practices.

New Collective Bargaining Agreement – In 2007, SaskEnergy and the Communications, Energy & Paperworkers Union (CEP), Local 649 established a Collective Bargaining Agreement which extends until January 31, 2010. The agreement establishes many positive outcomes for all involved. SaskEnergy is committed to continually evolving and improving its workplace and to working with all employees who contribute so much every day.

OUR SERVICE

Top-Performing Natural Gas/Electric Utility in Canada – SaskEnergy has been named the top performing natural gas/electric utility in Canada for 2007 in an independent national survey conducted by Ipsos-Reid. Ten companies participated in this survey of residential energy customers across Canada. SaskEnergy outperformed all companies in a balanced weighting of 28 different customer service indicators.

SaskEnergy's New Strategic Plan – Corporate Highlights

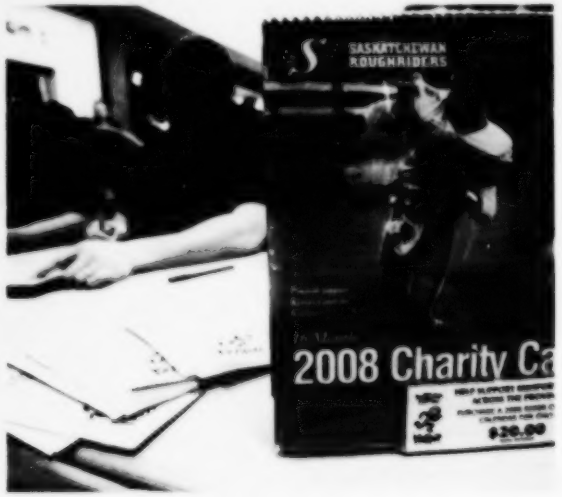
2007 New Customer Connection Activity – As a result of Saskatchewan's booming economy, SaskEnergy installed over 4,000 net new customer services across the Province during the construction season. SaskEnergy met new customer requirements for infrastructure in over 350 Saskatchewan communities in 2007. This makes 2007 the busiest year in terms of new customer activity since 1999. To accommodate this growth, SaskEnergy Construction used 23 crews during peak season, compared to 18 crews at peak season in 2006. An additional six crews worked on TransGas projects.

Natural Gas Service for Northerners – In 2007, SaskEnergy progressed with the necessary customer commitments and approvals to extend its natural gas system north from Montreal Lake to La Ronge, Air Ronge, Weyakwin, Ramsey Bay and the Lac La Ronge Indian Band. This project will involve the installation of 147 kilometres of high-pressure natural gas pipeline through challenging terrain, including 46 water crossings and 15 kilometres of muskeg.

OUR GROWTH

Flare Gas Capture – SaskEnergy, through Bayhurst Gas Limited, formed Bayhurst Energy Services Corporation in 2007. This new subsidiary purchased the Kisbey Natural Gas Processing Plant in southeast Saskatchewan as part of an unincorporated joint venture. This project is targeting the capture of approximately 10 per cent of natural gas that is normally flared into the atmosphere during oil production in Saskatchewan to turn it into a viable energy source for our customers. This initiative will remove the equivalent of the Greenhouse Gases (GHG) produced daily by 6,300 homes – the same amount produced by all homes in the city of Estevan.

SaskEnergy's New Strategic Plan – Corporate Highlights



Energy to Store – TransGas Storage Cavern Development Project – TransGas launched a storage expansion project that will create three new caverns at the existing Landis location plus expand storage capacity through modifying existing storage fields at Unity and Bayhurst for a total of 7.7 Petajoules (PJ) by 2011. These activities leverage existing storage facility assets to provide a cost-effective expansion.

A four-cavern development project near Saskatoon was completed in 2007, providing an increase of over 3 PJ of capacity for TransGas customers, including SaskEnergy. The project supports the ability to deliver natural gas into the Saskatoon area for residential, commercial and industrial customers.

OUR FUTURE

SaskEnergy's Share the Warmth™ Home Energy Efficiency Project – For the third consecutive year, the Home Energy Efficiency Project (HEEP) helped Saskatchewan homeowners lower their energy costs and learn about simple and inexpensive home energy efficiency options. The project saw 673 volunteers come together to perform energy efficiency upgrades in 440 low-income homes in 23 communities. Volunteers included SaskEnergy and TransGas employees, SaskEnergy Network Members, Salvation Army volunteers, Saskatchewan Institute of Applied Science and Technology (SIAST) students and other community organizations from across Saskatchewan. This year, HEEP was the recipient of three Saskatchewan Awards for Communications and Creative Excellence (ACE).

Catch for KidSport™ Program – SaskEnergy's sponsorship and support of the *2008 Saskatchewan Roughrider Charity Calendar* generated more than $111,000 for KidSport in 2007 through sales and advertisements – the highest amount KidSport has collected since the Corporation became involved 10 years ago. In total, $180,927 was raised in 2007 through SaskEnergy's support and other KidSport programs that helped more than 1,900 children in need participate in sports.

SaskEnergy's New Strategic Plan – Corporate Highlights

Engaging our Youth – Youth Enviro-Action Symposium – In the spring, SaskEnergy hosted a Youth Enviro-Action Symposium. Over 500 high school and university students attended the event which provided all delegates the opportunity to consider how they might impact others and the environment in Saskatchewan. Students were encouraged to formulate ideas for how they can rally youth in their communities to lessen their environmental footprint and protect the Province's natural landscape.

Environmental Leadership – SaskEnergy continues with its ambitious goal of raising the energy and environmental awareness level of the Saskatchewan public. Over 20,000 Saskatchewan homeowners have utilized the rebates and grants available for the Programmable Thermostat Rebate, Provincial Sales Tax Rebate on ENERGY STAR® furnaces and boilers and the EnerGuide for Houses Grant Program. Through SaskEnergy's Dealer and Commercial Networks, the Corporation once again offered the ENERGY STAR Prime Rate Loan Program for the purchase of high-efficiency furnaces, and delivered a Commercial Boiler Program to encourage the use of high-efficiency natural gas hydronic space heating systems.

Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that impacted the operations and financial results of SaskEnergy Incorporated (SaskEnergy or the Corporation) and its wholly owned subsidiaries for the year ended December 31, 2007. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects. This style of reporting enables readers to view SaskEnergy from the perspective of management.

This MD&A, together with the 2007 audited consolidated financial statements of the Corporation and related notes, form the basis for financial reporting.

SaskEnergy's new strategic mandates play a crucial role in the Corporation's business planning, and an equally important role in its business reporting. Each year, SaskEnergy/TransGas comprehensively measures, reports and sets targets for all aspects of its business according to the highest benchmarks – those it sets for itself to create superior value through innovative energy solutions.

To fulfill several Crown corporation and Provincial Auditor recommendations and help Saskatchewan residents better understand the business, the SaskEnergy 2007 Annual Report is focused on the Corporation's performance as reported in a new scorecard created in conjunction with the new strategic plan. The 2007 MD&A is based on the new key success measures found within the scorecard.

This scorecard reflects SaskEnergy's four strategic mandates through 40 key success measures used to monitor and manage organizational performance. Discussed in detail in the MD&A, the new scorecard provides a comprehensive picture of the Corporation's 2007 financial results and key operational details about SaskEnergy and its subsidiaries.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. Risks are outlined in the Risk Management section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

Our People

Working in a safe, healthy and rewarding environment, our employees will be fully engaged in the success of the organization.

Strategic Measure	2006 Actual	2007 Actual	2007 Target	2008 Target	2009 Target	2010 Target
Physical Safety						
• Lost Time Frequency Rate	Third Quartile*	Third Quartile*	Second Quartile*	Second Quartile*	Top Quartile*	Top Quartile*
• Preventable Collision Frequency Rate	Top Quartile*	Top Quartile*	Second Quartile*	Second Quartile*	Top Quartile*	Top Quartile*
• Medical Aid Frequency Rate	•	Second Quartile*	Second Quartile*	Second Quartile*	Top Quartile*	Top Quartile*
Employee Satisfaction	Satisfaction Index 50%	Hay Group survey results 73%**	Satisfaction Index 55%	Satisfaction Index 55%	Satisfaction Index 60%	Satisfaction Index 60%
Compensation and Benefits						
• Corporate Competitiveness	•	Review will be completed in 2008	75th percentile of Saskatchewan Market	75th percentile of Saskatchewan Market	75th percentile of Saskatchewan Market	75th percentile of Saskatchewan Market
Representative Workforce						
Composition of the Workforce						
• Aboriginal	11.6%	13.6%	11.5%	12.0%	13.0%	14.0%
• Women	39.2%	38.8%	41.0%	41.0%	41.5%	42.0%
• Youth	•	15.6%	14.0%	14.0%	15.0%	16.0%
• People with Disabilities	2.8%	2.8%	6.0%	6.0%	6.5%	6.5%
• Visible Minorities	1.8%	2.7%	3.0%	3.0%	3.5%	4.0%
• Diversity Hires	32.6%	42.7%	35.0%	35.0%	35.0%	35.0%

• New target for 2007.

* Quartile refers to ranking relative to other Canadian Gas Association and Canadian Energy Pipeline Association companies.

** In 2007, SaskEnergy used the Hay Group survey rather than the Hewitt survey to arrive at its employee satisfaction results.

The targets for 2008 and beyond were established and approved as part of SaskEnergy's 2008 business plan.

Our People

Sandy Korczak, Business Manager in Prince Albert and **Harvey Johnson**, District Mechanic Operator II in Unity – *Co-emcees at the Prince Albert "People with Energy" Employee Conference.*

Did you know that SaskEnergy held its first-ever "People with Energy" Employee Conferences in locations throughout the Province in November and December? These conferences brought together SaskEnergy and TransGas employees to discuss the strategic plan progress, learn about new directions and build a strong team through a variety of interactive sessions. Approximately 950 employees participated in the events, and employee feedback was overwhelmingly positive.

Physical Safety – Ensuring employees' safety each day is a top priority at SaskEnergy. This is reflected in the Corporation's commitment to achieving high standards in its safety performance by ranking at least second quartile in terms of the Lost Time Frequency Rate, Preventable Collision Frequency Rate and Medical Aid Frequency Rate.

In 2007, SaskEnergy was short of its target of second quartile for the Lost Time Frequency Rate. However, the Corporation exceeded its target in the Preventable Collision Frequency Rate and met its target with respect to the Medical Aid Frequency Rate. Although SaskEnergy did not reach its target for the Lost Time Frequency rate, the majority of incidents reported were minor in nature.

In 2008, SaskEnergy will continue to reinforce managers' and supervisors' leadership roles in employee coaching by ensuring they are provided with appropriate time, tools and training. The Corporation will once again recognize safety achievements and reward employees who have incident-free driving records for 12 consecutive months.

Employee Satisfaction – SaskEnergy knows employees must be engaged in their positions to be productive and contribute to the success of the organization. To gauge this level of satisfaction, SaskEnergy performs an annual survey that measures employee satisfaction in the following five areas: overall recognition, decision making/independence, opportunity for personal growth, satisfaction with compensation and benefits and work/life balance.

The baseline findings by the national Hewitt survey are the basis for the 2007 target; however, SaskEnergy transitioned to a different national survey, with a strong Saskatchewan focus conducted by the Hay Group to allow for more direct benchmarking against other Crown corporations and Saskatchewan companies. Comparing to companies with similar structures and challenges will be a more relevant tool to chart SaskEnergy's progress and guide future directions. Results of the Hay Group survey show that 73 per cent of employees rate SaskEnergy to be a favourable organization to work for. Although there is no target established for this survey, these results are 12 points higher than the norm of over 580 organizations who participated in this survey, and therefore SaskEnergy considers this an exceeded target. Also, 86 per cent of employees responded that they take pride in working for SaskEnergy.

In 2008, SaskEnergy will once again conduct a survey by the Hay Group to gauge employee satisfaction.

Compensation and Benefits – SaskEnergy is committed to continually evolving and improving its workplace, and will work with its partner, the Communications, Energy & Paperworkers Union (CEP), Local 649 to make SaskEnergy an employer of choice. In 2007, SaskEnergy began the review of its current market position relative to its compensation philosophy, which targets the majority of positions being at the Saskatchewan 75th percentile. The review is due to be completed in 2008; therefore, no target information is available.

SaskEnergy was proactive in a number of areas to retain its talent despite the labour market pressures of an active economy. The Corporation experienced a minimal 1.6 per cent industry appealing turnover rate and will continue its focus to retain and attract the best possible employees in 2008 and beyond.

Our People

Alison Mehler, Staffing Advisor and
Courtney Garrett, Organizational Effectiveness Coordinator
– Co-Founders of Generation Energy

Did you know that in 2007, SaskEnergy created a formal youth group called "Generation Energy" or "Gen-E"? This group, made up of employees throughout the company who share similar characteristics of youth, enthusiasm and motivation, was designed to actively engage staff aged 30 and under in various business, environmental, community and social initiatives throughout the company.

Representative Workforce – SaskEnergy recognizes that in order to be successful in the future, it will need to utilize hiring practices that will ensure a diverse and skilled workforce.

In 2007, SaskEnergy achieved its representative workforce targets in a number of areas. With respect to recruitment, SaskEnergy continues to meet and/or exceed the target of 35 per cent of all hires being diverse candidates. SaskEnergy has achieved strong representation with Aboriginal employees (13.6 per cent actual) and was close to meeting the Visible Minorities target of three per cent (2.7 per cent actual). In addition, SaskEnergy substantially increased the 30 and under age demographic of the workforce this year. This younger workgroup was greatly assisted by the experience and networking of talented and committed employees with significant career longevity with SaskEnergy. Despite additional efforts that focused on hiring people with disabilities, SaskEnergy was not able to meet its target in this area.

In 2008, SaskEnergy will build partnerships with agencies such as the Regina Open Door Society, Saskatchewan Independent Living Centre and the Saskatchewan Visible Minority Employee Association to recruit diversity employees and people with disabilities. The Corporation will also continue to build upon the Dumont Technical Institute/Saskatchewan Indian Institute of Technologies partnerships as a means of attracting more Aboriginal candidates for positions in operations and construction.

Our Service

Through performance excellence, we will provide product and service solutions that create high levels of satisfaction.

Strategic Measure	2006 Actual	2007 Actual	2007 Target	2008 Target	2009 Target	2010 Target
Reliability Index						
• SaskEnergy	•	8.1	9.0	9.0	9.0	9.0
• TransGas	•	9.5	9.2	9.2	9.2	9.2
Customer Satisfaction						
• SaskEnergy	95%	95%	85%	85%	85%	85%
• TransGas	*	95%	85%	85%	85%	85%
Respond Within One Hour to Safety Incidents						
• SaskEnergy	90%	90%	98%	98%	98%	98%
• TransGas	100%	100%	98%	98%	98%	98%

• New target for 2007.

* Denotes actuals or targets were not available or reported for that time period.

Reliability Index – This strategic initiative was developed to provide a measure of the reliability of SaskEnergy's and TransGas' systems ability to provide service to its customers without interruption. The Reliability Index takes many lead and lag indicators into account, such as outages, training, customer awareness programs and planned maintenance progress, and applies a weighted score to arrive at a measure to gauge the effectiveness of the Corporation's efforts. The scale is in a range of 0 to 10, with 10 being the highest achievable score.

SaskEnergy: At the end of 2007, SaskEnergy scored 8.1 out of 10 on the Reliability Index, just slightly below the target of 9.0. Throughout the year, SaskEnergy maintained a high level of reliability in the 9.0 range; however, the Reliability Index was impacted at the end of the year by a significant outage caused by a third party that temporarily interrupted service to several hundred customers. SaskEnergy was able to quickly restore service to the majority of customers within hours of the incident.

TransGas: In 2007, TransGas achieved 9.5 on the Reliability Index, surpassing its target of 9.2. In 2008, SaskEnergy and TransGas anticipate spending $19.3 million on ongoing integrity programs and maintenance initiatives to ensure the reliability of the transmission, storage and distribution systems.

Our Service

Construction North Crew, Saskatoon
Left to Right:
Patrick Stuike, Equipment Operator
Cortney Mead, Equipment Operator
Brennan Kuzyk, Equipment Operator
Larry Kowbel, Crew Supervisor

Did you know that 2007 was the busiest year in terms of new customer activity since 1999? With Saskatchewan's booming economy, SaskEnergy Construction used 23 crews during peak season (compared to 18 crews at peak season in 2006), and an additional six crews worked on TransGas projects, in order to keep up with the demand for natural gas.

Customer Satisfaction – Connecting with customers is a key strategy. SaskEnergy strives to create a culture that seeks solutions for customers and in turn measures customer satisfaction.

SaskEnergy: In 2007, SaskEnergy contacted residential, commercial and First Nation customers and asked them to rate the reliability and quality of SaskEnergy service as well as their overall satisfaction with SaskEnergy. Of the customers surveyed, 95 per cent rated their overall satisfaction with SaskEnergy as good, very good or excellent, which is well beyond the target of 85 per cent.

TransGas: Through the Customer Satisfaction Survey conducted in October 2007, TransGas received an overall mean rating score of 4.73 out of a possible 5.00 rating. Several aspects of customer service were evaluated and scores were consistently high for all aspects. This score represents a 95 per cent level of customer satisfaction which is well beyond the target of 85 per cent.

In 2008, SaskEnergy will implement the Customer Service Representative (CSR) Workforce Development Project to improve CSR training and the management of CSR peak workloads throughout the pool of CSR resources.

Respond Within One Hour to Safety Incidents – This measure reflects the importance that SaskEnergy and TransGas place on responding to safety incidents in a timely manner in order to ensure pubic safety.

SaskEnergy: In 2007, SaskEnergy responded to 90 per cent (528 out of 584) emergency customer calls within one hour, with an average response time of 0.64 hours. This result is below the stretch target of 98 per cent, as SaskEnergy is challenged with providing 24-hour service to customers who are spread out over a large geographical area.

Darlene Exner, Key Account Manager and lead on the Statements and Invoicing on the Web Project

Did you know that the Statements and Invoicing on the Web (SIP) Project, over a year in the making, went live on January 1, 2008? TransGas customers can now access both their statements and invoices – viewable, printable and downloadable – via a secure Internet application. This project is integral to ensuring TransGas customer satisfaction as it will eliminate the need for manual faxing of over 10,000 faxes each year and will also link the statement and invoice together, so related documents can be referenced with ease.

TransGas: TransGas exceeded its target with a 100 per cent rating as it had only one safety incident throughout the year and it was responded to within one hour.

SaskEnergy will implement the Truck Office Project (TOP) in 2008, whereby SaskEnergy technicians will receive their work orders directly in their vehicles through a computer interface. Coupled with an enhanced dispatch system that utilizes Global Positioning Service (GPS) technology, SaskEnergy will manage its technician resources better to provide shorter response times to customer calls.

Did you know that 95 per cent of Saskatchewan people recall SaskEnergy's key safety message "Call before you dig"? SaskEnergy has a strong commitment to providing safe and reliable service to its customers and one of the ways it does so is by offering a line location service. Pictured here, Garry Unrau is responsible for performing many line locates throughout the year, which help to prevent customers from striking underground infrastructure when beginning excavation projects.

Garry Unrau, Service Tech II – *Humboldt*

Our Growth

We will make incremental investments and provide new service offerings to realize incremental annual net income of $10.4 million by 2009, create additional employment opportunities and increase enterprise value.

Strategic Measure	2006 Actual	2007 Actual	2007 Target	2008 Target	2009 Target	2010 Target
Incremental Net Income from Business Development (millions)						
• New Business Development	•	$0.4	–	$3.5	$7.8	$9.2
• External Investments	•	$4.0	$3.4	$5.5	$7.2	$8.1
Number of Business Opportunities Considered	•	27	10	10	10	10
Number of Opportunities Under Development	•	6	4	4	4	4
Direct Jobs Created *	•	2	32	20	16	68

• New target for 2007.

* Includes permanent jobs plus jobs created during construction and development phase.

SaskEnergy has developed a new growth strategy that focuses on investing within Saskatchewan on natural gas-related ventures including expanding storage and flare gas opportunities and investigating biomass green methane and CO_2 sequestration prospects. SaskEnergy will undertake these initiatives, working with strong business partners and through excellent relationships, to generate incremental net income and to bolster the economy of the Province through expanded economic activity including investments and job creation.

Incremental Net Income from Business Development – This new measure gauges the success of the business development initiatives in terms of net income for both new and existing investments.

Net income from new business development initiatives was not expected in 2007, as SaskEnergy was in the development stage of this strategy. However, SaskEnergy surpassed its target by realizing net income of $0.4 million from the joint venture purchase of the Kisbey Natural Gas Processing Plant.

In 2007, existing investments from SaskEnergy International and SaskEnergy Nova Scotia Holdings Ltd. resulted in combined incremental net income of $4.0 million which is above the target of $3.4 million.

Number of Business Opportunities Considered – Each year, SaskEnergy will research and consider a variety of new business opportunities in order to stay current on the latest trends and ventures in the industry.

In 2007, SaskEnergy surpassed its target, having researched 27 possibilities and choosing to actively develop six initiatives.

Our Growth

Michelle Maystrowich, Manager of Financial Accounting, **Fred Hill**, Director of Business Development and **Scott Terlson**, General Manager, Eastern District

Did you know that SaskEnergy formed a new company in 2007? Michelle Maystrowich, Fred Hill, Scott Terlson, and Marilyn Wappel (missing from photo) were key to helping the Corporation establish Bayhurst Energy Services Corporation to purchase and operate the Kisbey Natural Gas Processing Plant, an unincorporated joint venture. Their extensive business and facility knowledge, financial acumen and keen legal expertise were crucial in negotiating this multi-million dollar purchase and sale agreement.

Number of Opportunities Under Development – This new measure monitors the number of business development opportunities that are currently under way.

In 2007, SaskEnergy exceeded its target with six opportunities either under development or completed. These projects include: a natural gas processing plant acquisition with plans to expand it to capture more flared gas; the development of another storage expansion for TransGas; a focus on marketing opportunities that utilize existing Bayhurst Gas Limited assets dedicated to natural gas marketing; the optimization of Bayhurst Gas Limited natural gas inventory capabilities; the provision of Supervisory Control and Data Acquisition (SCADA) services for SaskWater; and working with partners to develop the Regina Landfill Methane to Hydrogen Project.

Direct Jobs Created – This new measure monitors the number of jobs created each year in relation to business development initiatives.

In 2007, SaskEnergy created two positions in relation to business development initiatives. This number is lower than target as a result of both lower dollar value projects and less labour intensive projects proceeding.

In 2008, SaskEnergy will explore new initiatives to earn incremental net income on projects including flare gas initiatives, market-based storage, biomass green methane and CO_2 transportation. SaskEnergy will invest in specific research and demonstration projects to move some of its key initiatives towards commercial reality.

Our Future

We will support our communities, protect the environment and improve the governance and financial health of our company to achieve long-term sustainability.

Strategic Measure	2006 Actual	2007 Actual	2007 Target	2008 Target	2009 Target	2010 Target
Competitive Rates						
• SaskEnergy Commodity	Lowest in Canada	$838 – 3rd Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
• SaskEnergy Delivery	Lowest in Canada	$367 – 2nd Lowest in Canada	2nd Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
• TransGas Export Rates	Lower than average TCPL (Nova)	Lower than average TCPL (Nova) TransGas 25.3¢/GJ Nova 27.5¢/GJ	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)
Community Investment						
• Investment (millions)	$1.57	$1.73	$1.56	$1.60	$1.60	$1.60
• Projects Supported	1,268	1,288	1,300	1,300	1,300	1,300
• Communities Impacted	307	317	270	270	270	270
• Percentage of Goods/Services Sourced in Saskatchewan	70%	69%	75%	70%	72%	74%
• Total Contracts – Percentage of Aboriginal Labour Content	12%	10%	12%	10%	11%	12%
Environmental						
• Investment in Environmental Impact Programs (thousands)	•	$910	$840	$840	$840	$840
• Number of Programs Undertaken	•	6	6	6	6	6
• Reduction in Energy Consumption	•	55 TJ/year	20 TJ/year	20 TJ/year	20 TJ/year	20 TJ/year
• Fund and Administer Customer Energy Efficiency Assistance Programs (millions)	•	$1.55	$1.6	$1.6	$1.6	$1.6
• Number of Customers Impacted	•	7,841	8,000	8,000	8,000	8,000
Governance	Comply with CSA Governance Guidelines*	Comply with CSA Governance Guidelines*	Comply with CSA Governance Guidelines*	Comply with CSA Governance Guidelines*	Comply with CSA Governance Guidelines*	Comply with CSA Governance Guidelines*
Financial Health						
• Debt/Equity Ratio	63/37	63/37	65/35	63/37	65/35	65/35
• Rate of Return on Equity	14.7%	15.4%	16.3%	14.8%	14.6%	13.3%
• Net Income (millions)	$59	$66	$69	$64	$65	$60
• Capital Investment (millions)	$71	$100	$110	$103	$87	$66

• New target for 2007.
* Canadian Securities Administrators (CSA) Corporate Governance Guidelines "National Policy 58-201" and guidelines for disclosure of Corporate Governance Practices "National Instruments 58-101."

Lori Christie, Director of Distribution Cost of Gas and Rates

Did you know that SaskEnergy uses a disciplined portfolio approach in its commodity price risk management (hedging) program, applying both a combination of fundamental and statistical analysis? This management style allows SaskEnergy to provide customers with commodity rates that are both stable and amongst the lowest in Canada.

Competitive Rates – The competitive rates measure reflects the importance of supporting the sustainability of operations through affordable service rates. Competitive rates allow SaskEnergy to effectively support economic growth in the Province through an energy advantage of doing business in the Province.

In 2007, SaskEnergy placed third in terms of lowest cost of commodity in Canada with an average cost to residential customers of $838 per year. Although SaskEnergy did not meet its target of lowest, there was not a substantial difference between the lowest rate and SaskEnergy's commodity rate. The top three utilities were all considerably lower than the average commodity rate in Canada. However, SaskEnergy met its target of having the second lowest delivery rates in Canada with an average annual cost of $367 per year for residential customers – only two dollars a year behind top-ranked ATCO for the city of Calgary.

TransGas reached its target of having rates lower than average TCPL (Nova) rates. TransGas rates were more than two cents less per Gigajoule (GJ) (or 7.7 per cent less) than those of TCPL (Nova) in Alberta in 2007.

In 2008, SaskEnergy will strive to keep commodity and delivery rates competitive with those in other jurisdictions while supporting the sustainability of its operations. The Corporation will also review its commodity rate in both the spring and fall and apply for any necessary adjustments that may result from changing natural gas prices.

Community Investment – The community investment activities are important undertakings for building credibility, rapport and profile in the communities served by SaskEnergy. These investments increase the sustainability of SaskEnergy's operations.

Did you know that the Share the Warmth™ Fund was developed in 1999 to help SaskEnergy spread support outside of major urban centres to other smaller Saskatchewan communities? Managed by employee liaisons across the Province, this initiative invested more than $113,000 into events and activities in 96 Saskatchewan communities in 2007.

Leslie Gosselin, Manager of Advertising and Community Relations and catalyst for the Share the Warmth Fund

SaskEnergy

Supporting Your Community

In 2007, SaskEnergy surpassed its target by investing $1.73 million in sponsorships focused on five priority categories: Education and Leadership; Community Initiatives; Saskatchewan Pride; Environmental Stewardship; and Saskatchewan Growth.

Our Future

The sponsorships had an extensive provincial reach, supporting 1,288 projects in 317 communities. The variance between the target and actual investment was due to larger sponsorships relating to education that were initiated in 2007.

Part of SaskEnergy's community investment is purchasing goods and services sourced in Saskatchewan. SaskEnergy was below target in 2007 as a result of a significant number of specialized out-of-province compressor facility purchases that were required for capital projects. SaskEnergy also supports the Aboriginal population by awarding a percentage of its contracts to the Aboriginal labour market. Total Aboriginal contracts were below target for 2007 due to the significant number of specialized out-of-province contracts that were required for capital projects.

In 2008, SaskEnergy intends to contribute $1.6 million to support 1,300 events in 270 communities across Saskatchewan. The Corporation will also work to strengthen partnerships with Aboriginal and Saskatchewan-based suppliers in order to reach its targets.

Environmental – SaskEnergy expects to thrive in the future while protecting the environment. Therefore, it is incumbent upon the Corporation to take steps to minimize its impact on the environment.

In 2007, SaskEnergy exceeded its target investment in environmental initiatives by spending $910,000 on six environmental impact programs throughout the year.

Michael McMurray, Engineer, Environmental Services

Did you know that TransGas partnered with Ground Effects, Communities of Tomorrow and the University of Regina to conduct an electrokinetic study of the soil at the Prud'homme Compressor Station? The project focused on remediating brine-impacted soils and groundwater that were affected during the development of the natural gas caverns in the area and included elements of academic study and technology evaluation. This study was one of more than two dozen environmental projects that SaskEnergy performed in 2007.

These programs consisted of initiatives in the area of reclamation, hazardous material storage, site remediation, pollution prevention, air quality and GHG initiatives and leading edge research.

SaskEnergy significantly exceeded its target of reducing energy consumption (including GHGs) by lowering emissions by 55 Terajoules (TJ) through such measures as: projects at the Beacon Hill Compressor Station; the use of a flare while expelling natural gas from a section of pipeline near Patience Lake; and the installation of electric driven glycol pumps at the Bayhurst Compressor Station and Storage Field.

In 2007, SaskEnergy invested $1.55 million in energy efficiency initiatives and reached over 7,840 customers. These results were slightly below the target as the investment and reach planned for the ENERGY STAR loan program were less than anticipated as many customers chose to use home equity loans to replace their furnace along with other renovations.

In 2008, SaskEnergy is targeting a reduction in energy use through operational efficiency gains. Some initiatives include reducing kilometres driven in Customer Service vehicles by implementing TOP, replacing old line heaters with more energy efficiency alternatives and enhancing TransGas compressors. The Corporation will also

take additional measures to increase its environmental programs that reduce GHG and air pollutant emissions.

In addition to internal commitments, the Corporation will help customers use less energy through programs such as the EnerGuide for Houses Grant Program, the ENERGY STAR for New Homes Rebate and the Programmable Thermostat Rebate. The Corporation will raise customer awareness on initiatives such as furnace maintenance.

Governance – This measure rates SaskEnergy's corporate governance practices against those of the Canadian Securities Administrators (CSA) Corporate Governance guidelines. By having this measure in place, SaskEnergy can ensure that its customers and employees are treated fairly and that the proper levels of authority and responsibility are established, so that all employees can accomplish their work without unnecessary restrictions or risks.

SaskEnergy met its target of complying with the CSA Corporate Governance guidelines that apply to the Corporation's Board of Directors with the exception of the guideline that recommends a compensation committee of the Board be composed from entirely independent directors. SaskEnergy's joint Human Resources/Compensation Committee of the Board of Directors had one member who was not independent, but the committee had practices in place to remove the compensation component from this member's minutes and material. This member was also excluded from any meeting discussing such matters, thereby addressing this guideline. The Corporation also had 100 per cent of employees complete the governance compliance training in 2007.

Financial Health – The financial success measures were designed to ensure the Corporation maintains an appropriate capital structure while providing reasonable financial returns to the owner.

In 2007, consolidated net income from operations, before the effects of the commodity margin and fair value adjustments, was $66 million which was $3 million below the $69 million target. Revenues were lower as the distribution utility delivery rate increase, which became effective June 1, 2007, was assumed to occur earlier in the year. In addition, operating and maintenance expenses were higher than anticipated primarily due to higher labour costs caused by the strong demand for skilled and experienced staff in Saskatchewan. Partially counteracting these results was a higher than expected gas marketing margin, due to greater than expected sales volumes and margins.

In 2007, actual capital expenditures were $100 million, which was $10 million below the target of $110 million due to the deferral of certain projects to 2008. The Corporation's capital expenditure program was lower than anticipated which resulted in a favourable debt to equity ratio of 63 per cent debt and 37 per cent equity.

As a result of the foregoing, the rate of return on equity of 15.4 per cent was below the target of 16.3 per cent.

SaskEnergy will target to maintain a financially sound position with annual consolidated net income projected between $57 million and $65 million over the next five years. SaskEnergy's well-established transmission, storage and distribution systems are expected to experience modest growth. The transmission utility's growth is dependent upon sustained natural gas reserves, and the distribution utility's growth is contingent upon continued customer growth within the Province due to a strong Saskatchewan economy. The primary source of natural gas marketing net income is the sale of natural gas produced from a storage facility which is in the process of being decommissioned. As these natural gas reserves are finite, it is expected that production will decline over the planning horizon, which will in turn reduce net income. However, SaskEnergy has initiated a program to purchase and inject natural gas into this facility in order to extend the life of the reserves. As the new strategic plan emphasizes growth, SaskEnergy will expand its focus on business development within Saskatchewan and anticipates a strong rate of return from both new and existing investments within and outside the Province.

Understanding Our Business

The primary business of SaskEnergy Incorporated (SaskEnergy) and its wholly owned subsidiaries is the distribution and transmission of natural gas in the Province of Saskatchewan. In addition to operations within Saskatchewan, the Corporation conducts utility operations in Manitoba and Nova Scotia. With proven success in the utility business, the Corporation has also pursued natural gas-related commercial business opportunities. The commercial operations are primarily conducted through SaskEnergy's wholly owned subsidiaries to generate incremental income.

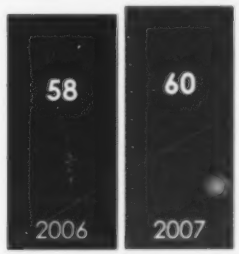
Distribution Utility

DELIVERY

SaskEnergy has the legislative franchise for the distribution of natural gas within the Province of Saskatchewan. The distribution system delivers natural gas to more than 336,000 residential, farm, commercial and industrial customers over a 66,000 kilometre pipeline system. SaskEnergy's subsidiaries, Swan Valley Gas Corporation and SaskEnergy Nova Scotia Holdings Ltd. (through its investment in Heritage Gas Limited) provide natural gas distribution services in certain areas of Manitoba and Nova Scotia respectively.

Delivery revenue is driven by the volume of natural gas delivered to customers. Most of SaskEnergy's distribution customers consume natural gas for heating purposes during the winter months. As a result, the volume of natural gas distributed is sensitive to variations in the weather, particularly through the prime heating season of November to March.

VOLUMES DELIVERED
(PETAJOULES)



COMMODITY

Although customers may purchase natural gas from other suppliers, SaskEnergy supplies natural gas to the vast majority of its delivery customers. Similarly, Swan Valley Gas Corporation and SaskEnergy Nova Scotia Holdings Ltd. (through Heritage Gas Limited) supply natural gas to customers in Manitoba and Nova Scotia respectively.

The Corporation's commodity rates are designed to ensure that in the long term it neither profits from nor incurs a loss on the sale of natural gas to its customers. This approach is similar to practices in other regulated Canadian jurisdictions, including Manitoba and Nova Scotia where SaskEnergy's subsidiaries operate in a fully regulated environment. While natural gas purchase prices are subject to market price volatility, SaskEnergy's commodity rates remain in effect for a set period of time.

GAIN (LOSS) ON
COMMODITY SALES
($ MILLIONS)

Understanding Our Business

Transmission Utility

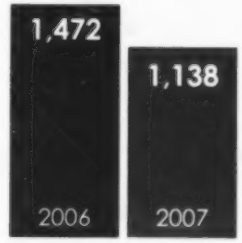
TRANSPORTATION AND STORAGE

TransGas Limited's transmission system provides transportation and storage services to the distribution utility, producers, marketers and large volume end-use customers within Saskatchewan. In addition, Many Islands Pipe Lines (Canada) Limited's pipeline system joins to interconnecting pipelines in Alberta, the United States and Manitoba, providing access to natural gas supplies and markets outside Saskatchewan.

Transportation revenue is determined mainly by the transmission capacity contracted with shippers for natural gas receipts onto and deliveries from the pipeline system. The amount of capacity shippers require is directly impacted by the amount of natural gas production in Saskatchewan as well as delivery volumes which are dependent upon the demand for natural gas both within and outside the Province.

The volume of capacity contracted by customers directly affects storage revenue. The Corporation's storage capacity has been fully contracted for 10 consecutive years.

NATURAL GAS WELLS DRILLED IN SASKATCHEWAN



Commercial Operations

NATURAL GAS MARKETING

Bayhurst Gas Limited produces and sells natural gas from a decommissioned natural gas storage facility in west-central Saskatchewan which is no longer used in commercial storage operations.

In addition, SaskEnergy and its subsidiaries, TransGas Limited and Bayhurst Gas Limited, engage in natural gas marketing activities to maximize the use of contracted transmission and storage capacity during off-peak periods by purchasing and selling natural gas in the open market to earn a margin. SaskEnergy also supplies natural gas to larger end-use customers in Saskatchewan through non-regulated contract sales.

SALES MARGIN
($ MILLIONS)

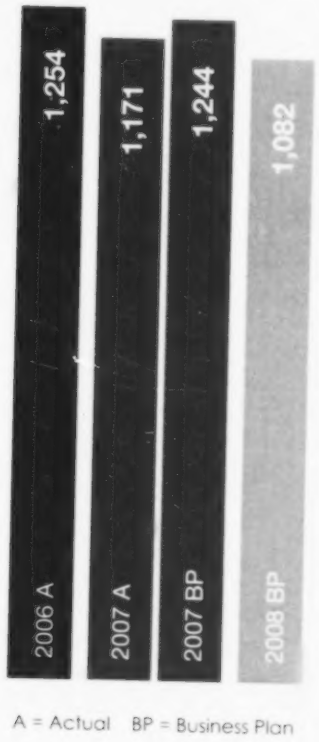
OTHER

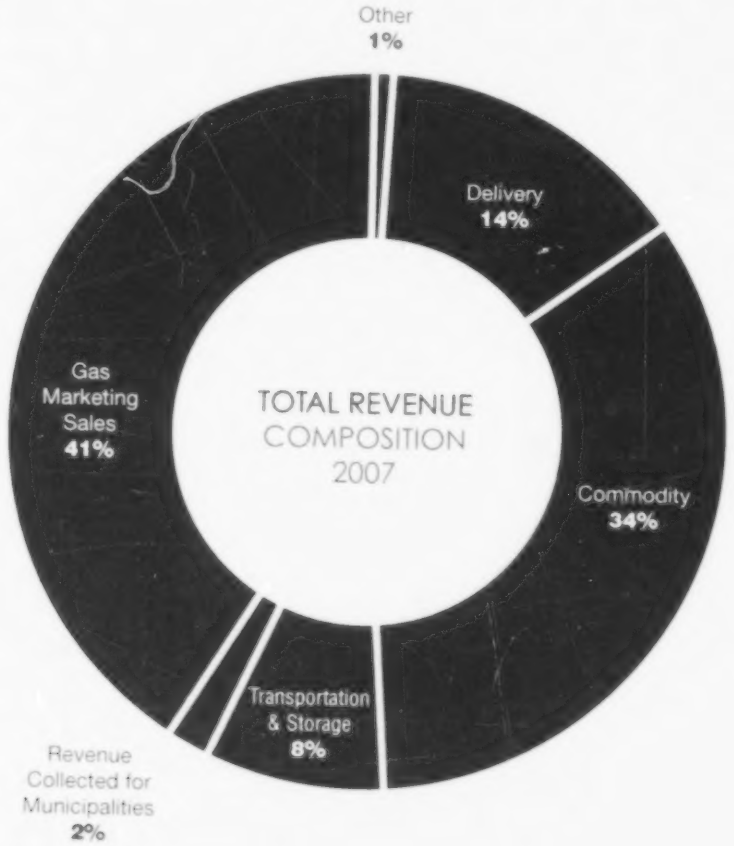
SaskEnergy's other commercial operations which leverage its natural gas business expertise are conducted outside the utility operations through subsidiaries as follows:

- Bayhurst Gas Limited – owns a gross overriding royalty on approximately 450 natural gas-producing properties located in Saskatchewan and Alberta.
- Bayhurst Energy Services Corporation – operates a natural gas gathering and processing plant in southeast Saskatchewan though an unincorporated joint venture.
- Saskatchewan First Call Corporation – operates an underground infrastructure location database in Saskatchewan for 25 subscribing corporations.
- SaskEnergy International Incorporated – holds an equity interest in two separate companies operating natural gas-related businesses in Chile and Mexico.

Consolidated Financial Results

The consolidated financial results reflect the operations of SaskEnergy and its seven wholly owned subsidiaries. With over $1 billion in assets, SaskEnergy generated consolidated net income of $88 million in 2007, $35 million higher than net income of $53 million in 2006. As a result, the Corporation paid $53 million in dividends to its parent, CIC, compared to $35 million in 2006. The increase in net income was due to lower expenses, primarily related to the cost of gas sold in both the distribution utility operations and natural gas marketing activities. Total consolidated revenue decreased 7 per cent from $1,254 million in 2006 to $1,171 in 2007.





UTILITY OPERATIONS

In 2007, the utility operations accounted for 58 per cent of SaskEnergy's total consolidated revenue or $679 million (52 per cent of total consolidated revenue and $653 million in 2006). Utility operations include distribution utility and transmission utility operations which are primarily conducted through SaskEnergy's Distribution Utility and TransGas Limited respectively.

A. DISTRIBUTION UTILITY

Delivery – A key driver of delivery revenue is the volume of natural gas delivered to residential, farm, commercial and industrial customers. The majority of SaskEnergy's distribution customers consume natural gas for heating purposes. Variations in winter weather can either increase or decrease consumption of natural gas. With normal weather in 2007, delivery revenue was $14 million higher than 2006, which was 6 per cent warmer than normal. Total volumes distributed to residential, farm, commercial and industrial customers in 2007 were 60 PJ compared to 58 PJ in 2006.

Customer growth in urban areas, primarily Regina and Saskatoon, resulted in 4,364 net new customers in 2007 (2,908 in 2006). Although the number of customers continues to increase, there is a decline in the average consumption per customer. Improvements in building insulation methods, development of more energy efficient natural gas equipment and ongoing energy conservation measures by customers have continually reduced consumption on a per customer basis. Although such initiatives actually lower delivery revenue, energy conservation is important to the future sustainability of SaskEnergy's distribution business. Provincial and Federal Government energy conservation programs administered by SaskEnergy help consumers use natural gas more efficiently, thereby encouraging them to choose natural gas to meet their long-term energy needs.

SaskEnergy's first delivery rate increase since 1997 became effective June 1, 2007 to reflect ongoing operating cost increases. The basic monthly charge increased $2.00 per month for residential customers and $2.50 per month for farm customers, with modest increases for other customer classes. The average overall bill impact was an increase of 1.5 per cent, including commodity costs.

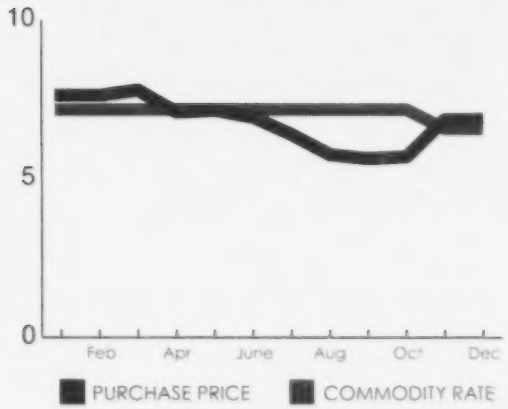
Commodity – Similar to regulated utilities in other Canadian jurisdictions, SaskEnergy does not over the long term profit from nor incur a loss on the sale of natural gas to distribution utility customers. The commodity rate is designed to recover SaskEnergy's expected cost of natural gas over a period of time and remains fixed until a new commodity rate is approved by the Provincial Cabinet. However, since the purchase price of natural gas can fluctuate, SaskEnergy may experience differences between the amount paid for natural gas and the amount charged to customers through its commodity rate. These differences are either refunded to or collected from customers through adjustments to future commodity rates.

SaskEnergy conducts a price management program to assist in managing the volatility of natural gas purchase prices. The effects of this price management program are included in commodity revenue and cost of natural gas sold.

In 2007, the commodity rate was $7.17 per GJ from January 1 to October 31 and $6.57 per GJ from November 1 to December 31. These commodity rates, in conjunction with the results of price management strategies, equated to an average commodity rate of $6.92 per GJ, which was lower than the average rate of $7.28 per GJ in 2006. Offsetting the lower average commodity rate, SaskEnergy sold 57 PJ of natural gas to distribution utility customers in 2007 compared to 53 PJ in 2006. Consequently, SaskEnergy had commodity sales of $400 million in 2007 which was $11 million higher than 2006.

The average cost of natural gas sold by the distribution utility in 2007 was $6.56 per GJ which was lower than the 2006 average cost of natural gas sold of $7.45 per GJ. The lower average cost of natural gas sold in 2007 resulted in total commodity cost of natural gas sold of $373 million, a $22 million decrease from $395 million in 2006. As a result, SaskEnergy's commodity sales exceeded the commodity cost of natural gas sold, thereby creating a gain on commodity sales of $27 million compared to a loss on commodity sales of $6 million in 2006.

PURCHASE PRICE VS. COMMODITY RATE
($ PER GJ)



B. TRANSMISSION UTILITY

Transportation and Storage – During 2007, transportation and storage revenues were $88 million, which was consistent with 2006. Transportation revenue is dependent on contract receipt and delivery volumes, volume of actual energy receipts and deliveries and service rates in effect during the year. Receipts are based on the volume of natural gas produced within the Province as well as volumes imported from Alberta. Deliveries are primarily derived from the volume of receipts and storage withdrawals. Transportation is therefore significantly influenced by production from natural gas reserves within the Province.

During 2007, 1,138 natural gas wells were drilled, which marks the fourth consecutive year of decline in Saskatchewan drilling and represents a 23 per cent reduction from 2006. The decline in drilling was primarily due to lower natural gas prices during 2007 and was a contributing factor to the reduction in contracted receipt capacity from 659 TJ per day in 2006 to 604 TJ per day in 2007.

Although Saskatchewan receipts declined, 2007 total deliveries and contract capacity levels within Saskatchewan were comparable to 2006. The lower receipts and stable deliveries within Saskatchewan resulted in less natural gas being available for export. During 2007, total export deliveries of 93 PJ were 28 per cent lower than 2006.

The impact of the decline in volumes was offset by the service rates in effect during the year. Effective January 1, 2007, transportation and storage rates increased by an average of 2 per cent.

The Corporation's 26 storage cavern facilities at eight locations throughout the Province provide service which customers use to meet their requirements on the coldest winter days. Storage capacity was fully contracted in 2007 for the tenth consecutive year. As at December 31, 2007, storage capacity was 75 per cent full (27 PJ) which matches the five-year average December storage level of 75 per cent full.

CONTRACT DEMAND
(TJ PER DAY)

COMMERCIAL OPERATIONS

Commercial operations generated 42 per cent of the Corporation's total revenue compared to 48 per cent in the previous year. Total revenue earned from commercial operations was $492 million in 2007 compared to $601 million in 2006. The primary commercial operation is natural gas marketing.

A. NATURAL GAS MARKETING

A major component of natural gas marketing is the sale of natural gas from a decommissioned storage facility in west-central Saskatchewan. Natural gas is sold from the storage facility to earn a margin.

In addition, the Corporation engages in natural gas marketing activities to maximize the use of the distribution utility's transmission and storage capacity during off-peak periods. The Corporation may purchase and sell natural gas in the open market to earn a margin in order to fully utilize its contracted capacity. SaskEnergy also supplies natural gas to larger end-use customers through competitive, non-regulated contract sales.

In 2007, natural gas marketing sales were $485 million. This represents a $109 million decrease from 2006 levels of $594 million. However, the decline in revenue was offset by a decline in the cost of natural gas sold. The $450 million cost of natural gas sold in 2007 was $108 million lower than the $558 million cost of natural gas sold in 2006 resulting in a natural gas marketing margin of $35 million. The natural gas marketing margin was $1 million lower than 2006 due to lower sales volumes and margins.

B. OTHER COMMERCIAL OPERATIONS

The Corporation has invested in natural gas-related businesses. Commercial operations are primarily conducted through the activities of SaskEnergy's subsidiaries, Bayhurst Gas Limited and SaskEnergy International Incorporated. In addition, Saskatchewan First Call Corporation, which intends to operate on a break-even basis, also provides a non-regulated service. The Corporation continued to expand commercial business in 2007 through the creation of Bayhurst Gas Limited's wholly owned subsidiary, Bayhurst Energy Services Corporation. In 2007, the commercial business conducted by the foregoing corporations generated revenue which was comparable to 2006. The improved performance of SaskEnergy's two international equity investments was offset by a decline in royalty revenue.

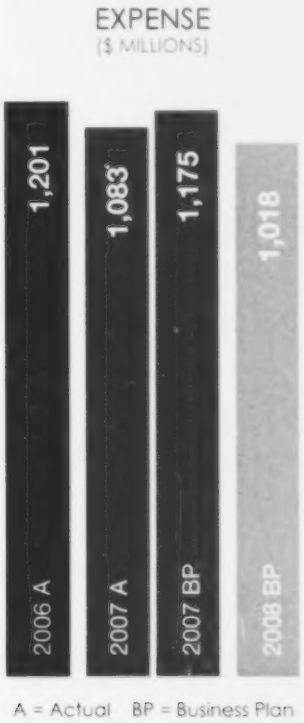
EXPENSES

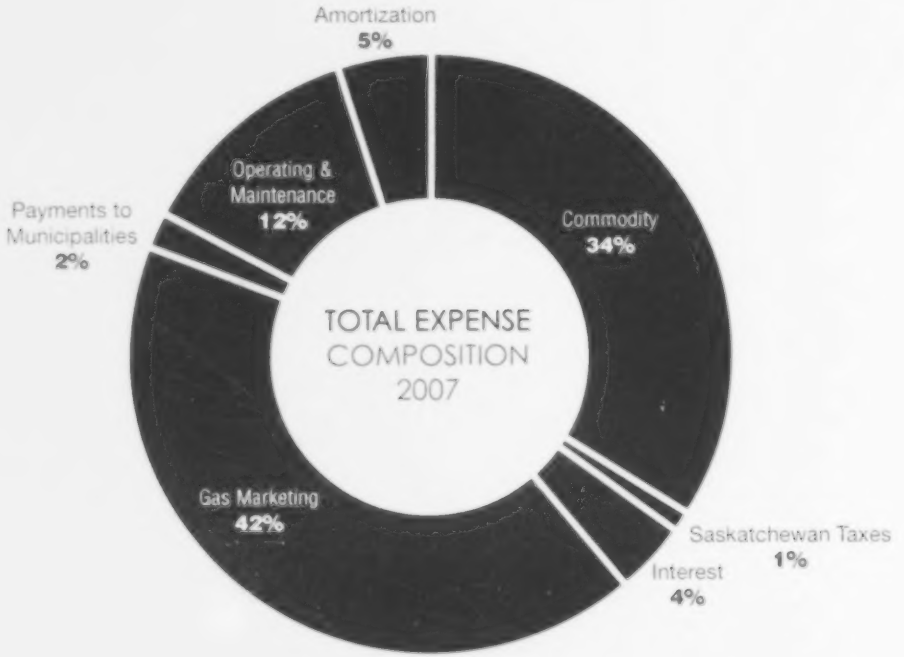
SaskEnergy's total consolidated expenses for 2007 were $1,083 million compared to $1,201 million in 2006, a decline of $118 million. This decrease was mainly due to the decreased cost of natural gas sold (which was previously discussed) and was partially offset by increased operating and maintenance expenses.

A. OPERATING AND MAINTENANCE

Operating and maintenance expenses for 2007 were $132 million, which was $11 million higher compared to $121 million in 2006. While several factors contributed to this increase, such as increased vehicle operating costs and material supplies, the majority was related to rising labour costs.

High customer activity levels due to strong economic growth in the Province during 2007 contributed to pressures on operating costs. In 2007, SaskEnergy performed approximately 12,000 additional line locates compared to 2006 as a result of public requests for locating the Corporation's underground facilities. In some cases, additional work was required to alter underground facilities for improvement projects undertaken by





customers. In addition, the high level of new customer connection activity performed during normal business hours required some regular maintenance activities to be completed using after hours resources.

SaskEnergy employs approximately 1,100 people (including temporary and seasonal staff) whose primary responsibility is maintaining the safe and reliable operation of over 80,000 kilometres of transmission and distribution systems, serving over 336,000 customers. Operating and maintenance expenses related to wages and benefits for these employees account for $89 million, or 67 per cent, of the total $132 million.

A new collective bargaining agreement was negotiated in 2007 which resulted in wage increases for in-scope employees. The competitive labour market in the Province also contributed to the increase in labour costs for both in-scope and out-of-scope employees as the Corporation strives to attract and retain knowledgeable and skilled staff.

B. INTEREST

Interest expense of $43 million for 2007 was $1 million less than 2006 largely because of lower interest on long-term debt. In 2007, SaskEnergy repaid $48 million of debt with an average interest rate of 7.5 per cent and issued $76 million of debt with an average interest rate of 4.7 per cent which, together with the timing of issuance, led to a decrease in interest expense. Although interest rates on short-term debt were higher in 2007 than in 2006, lower short-term debt balances led to reduced short-term interest expense. These favourable differences were partially offset by a decrease in income earned on debt retirement funds.

C. AMORTIZATION

Amortization expense of $54 million in 2007 was $1 million higher than the $53 million recorded in 2006. The increase was the result of an increased asset base in 2007 compared to 2006.

D. SASKATCHEWAN TAXES

The Corporation makes payments to the Province in the form of corporate capital taxes on capital employed. Mitigation payments and property taxes are also included in Saskatchewan taxes. The combined amount of the Saskatchewan taxes was $7 million which was comparable to the amount incurred in 2006.

Subsidiaries

	Assets (millions)		Revenue (millions)		Net Income (millions)	
	2006	2007	2006	2007	2006	2007
Bayhurst Gas Limited	$ 40.4	$ 78.6	$ 51.8	$ 86.7	$ 24.1	$ 30.3
SaskEnergy Nova Scotia Holdings Ltd.	33.8	50.4	5.8	9.8	1.6	2.4
SaskEnergy International Incorporated	25.2	24.2	1.2	2.0	0.8	1.6
Many Islands Pipe Lines (Canada) Limited	17.1	16.6	4.1	3.6	0.7	0.1
Swan Valley Gas Corporation	2.0	2.2	1.6	1.7	0.3	0.1
Saskatchewan First Call Corporation	0.1	0.2	0.4	0.5	–	0.1

BAYHURST GAS LIMITED (BAYHURST)

Bayhurst realized consolidated net income of $30.3 million in 2007, $6.2 million higher than net income in 2006. In late 2006, Bayhurst stopped natural gas production from its decommissioned storage facility which allowed it to inject approximately 3.2 PJ of natural gas into storage for resale at a later date. The 2006 purchase of natural gas enabled the facility to increase its volume of production leading to increased storage gas sales in 2007. Bayhurst purchased a further 8.0 PJ during 2007 which will increase deliverability again in 2008.

In addition to natural gas sales, Bayhurst enters into contracts with third parties that require either the sale or purchase of natural gas in a future period. Natural gas marketing sales, less related expenses, significantly increased in 2007 with net revenues of $25.3 million compared to $18.7 million in 2006. The increase is the result of higher volumes of natural gas sold, 5.8 PJ in 2007 compared to 3.7 PJ in 2006.

Bayhurst receives royalty revenue equal to 4.5 per cent of the gross revenue on natural gas sales from approximately 450 natural gas producing properties in Saskatchewan and Alberta. A decline in natural gas prices led to reduced volumes sold in 2007 which lowered royalty income to $4.6 million in 2007 compared to $5.4 million in 2006.

BAYHURST ENERGY SERVICES CORPORATION (BESCO)

Incorporated in late 2007 as a wholly owned subsidiary of Bayhurst, BESCO acquired a natural gas processing plant on November 1, 2007 as part of an unincorporated joint venture. The natural gas processing plant services four producers and sells natural gas and natural gas liquids at a margin. The acquisition helps SaskEnergy expand its natural gas processing business and supports Provincial Greenhouse Gas initiatives by reducing emissions. For the period November 1, 2007 to December 31, 2007, BESCO generated net income of $0.4 million, which is included in the consolidated net income of Bayhurst.

SASKENERGY NOVA SCOTIA HOLDINGS LTD. (SNSHL)

SNSHL holds a 50.1 per cent ownership interest in Heritage Gas Limited (Heritage Gas). The remaining 49.9 per cent ownership interest is held by Silgascorp Inc. (a wholly owned subsidiary of Scotia Investments Limited) (25 per cent) and AltaGas Utility Holdings (Nova Scotia) Inc. (24.9 per cent). SNSHL's net income of $2.4 million, which is $0.8 million above 2006, primarily reflects its 50.1 per cent share of Heritage Gas' reported net income.

Heritage Gas was formed to distribute and sell natural gas in Nova Scotia. Since Heritage Gas was awarded the franchise rights in 2003 to serve six counties in Nova Scotia, it has constructed over 183 kilometres of pipelines and is providing service to 1,213 residential, commercial and industrial customers. The growth is primarily in the markets of Dartmouth, Amherst and Halifax. The operations of Heritage Gas are regulated by the Nova Scotia Utilities and Review Board.

Subsidiaries

Heritage Gas relies predominantly on its three shareholders to provide the funding necessary to grow and sustain operations during this expansionary phase. SNSHL has invested through both equity investments and loans to Heritage Gas. At December 31, 2007 SNSHL had invested equity totaling $13.9 million and made interest-bearing loans of $22.3 million for a total cumulative investment of $36.2 million in Heritage Gas.

SASKENERGY INTERNATIONAL INCORPORATED (SEII)

SEII holds equity interests in a natural gas distribution company in Chile and a natural gas industrial transportation company in Mexico. These investments are long-term growth opportunities consistent with SaskEnergy's utility business expertise and provide geographical diversification for SaskEnergy. SEII's revenues reflect its share of the annual income from these two investments. SEII's expenses include governance, business development costs and an allocation of SaskEnergy's corporate costs.

GAS SUR S.A. (GAS SUR)

SEII holds a 30 per cent interest in Gas Sur, a cumulative investment of $13.6 million, while GASCO S.A., a major Chilean energy company, owns the remaining 70 per cent. Formed in 1999, Gas Sur is a natural gas distribution company with assets of over $95 million and serves over 32,000 customers in the eighth region of Chile. Chile has a growing economy and continues to be one of the most politically and economically stable countries in Latin America. Annual net income of $4.2 million, on revenues of over $20 million, was approximately $2 million higher than the previous year. Continued strong growth and high world energy prices have supported higher income. Natural gas has a strong competitive price advantage over propane which is the main competitive energy source for Gas Sur.

In addition to growing natural gas sales, Gas Sur is also developing an electrical power generation project expected to be operational early in 2009. This project leverages Gas Sur's existing natural gas contracts and its Chilean partner's electrical power expertise.

IGASAMEX USA LTD. (IGASAMEX)

SEII holds a 40.1 per cent interest in IGASAMEX with a cumulative investment of $10.7 million. IGASAMEX was formed in 1998 and is a natural gas industrial transportation company with assets of over $45 million and serves over 90 industrial customers throughout Mexico. Mexico is an investment grade country with the second largest economy in Latin America. Annual net income of $1.9 million, on transportation service revenues of over $8 million, was $0.5 million higher than last year. IGASAMEX also managed over $45 million in natural gas sales for its customers in 2007. The main competitive energy source is propane but IGASAMEX has also been successful converting fuel oil customers to natural gas.

MANY ISLANDS PIPE LINES (CANADA) LIMITED (MIPL)

In 2007, MIPL generated net income of $0.1 million which was $0.6 million below the 2006 results. This decrease was primarily due to a decrease in transportation revenue of $0.5 million compared to 2006. Lower contract demand and commodity volumes transported contributed to the decline in revenue.

SWAN VALLEY GAS CORPORATION (SVGC)

Following 2006, which was SVGC's most profitable year since inception, net income decreased by $0.2 million in 2007 with the commodity margin decreasing by $0.1 million and operating and maintenance expenses increasing $0.1 million. Similar to other Canadian regulated utilities, SVGC sells natural gas to its 235 distribution system customers with the intent to neither realize a gain nor incur a loss over the long term on the sale of the commodity. However, due to fluctuating natural gas prices in any particular year, SVGC may experience a gain or loss on commodity sales, which will require it to apply to the Manitoba Public Utilities Board (MPUB) to either recover or refund the amounts through future rates.

Subsidiaries

During 2007, SVGC received approval from MPUB to retain a commodity rate rider designed to gradually collect the accumulated balance of past years' costs associated with natural gas transportation incurred by SVGC but not recovered from customers. During 2007, the accumulated balance in the Purchase Gas Variance Account (PGVA) was reduced to $0.2 million, a decrease of 19 per cent from the prior year.

SASKATCHEWAN FIRST CALL CORPORATION *(SASK 1ST CALL)*

With 25 subscribing companies, *Sask 1st Call* maintains a database with access to over a quarter million kilometres of buried infrastructure within Saskatchewan. For each request, *Sask 1st Call* charges a fixed fee to the applicable subscribing company. As *Sask 1st Call* intends to operate on a break-even basis, the fixed fee is set each year to recover only the estimated costs of providing service.

In 2007, *Sask 1st Call* received approximately 88,000 requests and generated revenues of $0.5 million and expenses of $0.4 million. This is comparable to 2006 when *Sask 1st Call* had 77,000 requests and generated revenues of $0.4 million and expenses of $0.4 million. As a result, the net income of *Sask 1st Call* was consistent with 2006. A portion of the income will be utilized for system enhancements and other long-term improvements.

Liquidity and Capital Resources

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary source of liquidity and capital resources for SaskEnergy. Sources of liquidity include the authority to borrow up to $400 million of short-term loans from the General Revenue Fund and a $35 million line of credit with the Toronto-Dominion Bank. Over the longer term, SaskEnergy can borrow up to $1.3 billion of debt through the Province of Saskatchewan to fund its capital requirements.

During 2007, SaskEnergy generated $102 million in cash from operations. Together with the $400 million of short-term debt SaskEnergy is authorized to borrow, SaskEnergy has more than sufficient access to liquidity and capital to meet its near-term funding requirements.

The volatility of natural gas prices contributes to the liquidity risk inherent in the distribution utility business. Natural gas prices can rise substantially in a short period of time and increase the cost of natural gas purchased. While commodity rates are designed to recover the cost of natural gas from customers, a sudden increase in natural gas prices could result in significant net cash outflows before the commodity rates charged to customers can be adjusted to reflect the higher cost. In the interim, SaskEnergy relies upon its credit lines to fund the difference between the cost of natural gas and the revenue earned on its commodity sales to utility customers.

Due to the nature of SaskEnergy's distribution utility business, cash flows tend to be cyclical, as winter weather affects revenue while natural gas purchases occur equally throughout the year. In the summer, purchases of natural gas in excess of sales are injected into storage, while in the winter sales volumes in excess of purchase volumes are withdrawn from storage. Consequently, cash receipts tend to exceed cash expenditures from December to May, while cash expenditures tend to exceed cash receipts from June to November. SaskEnergy relies on temporary loans from the General Revenue Fund to finance natural gas injections into storage during the summer. These loans are then repaid between December and May as customers consume natural gas for heating purposes during the winter months.

SaskEnergy's access to long-term capital is strengthened by its ability to borrow debt through the Province of Saskatchewan. Almost all of SaskEnergy's outstanding long-term debt is owed to the Province of Saskatchewan. As SaskEnergy's borrowing requirements represent a small portion of the Province's total financing activities and the credit capacity of the Province remains strong, SaskEnergy continues to have access to long-term capital to finance its current and anticipated capital expenditures. In addition, SaskEnergy's debt to equity ratio of 63 per cent debt and 37 per cent equity as at December 31, 2007 is comparable to industry standards and provides SaskEnergy with the financial flexibility needed to protect the integrity of the owner's investment.

During 2007, capital markets were disrupted by the crisis in the asset-backed commercial paper markets. This crisis was precipitated by rising mortgage defaults in the United States and anticipation that even greater defaults would be realized in the future. Many of these mortgages had been bundled into collateralized debt obligations and sold to investors. These instruments became difficult, if not impossible, for holders to sell. As a consequence, the cost of borrowing through commercial paper markets rose substantially while benchmark interest rates remained unaffected.

The loss of liquidity and rising credit spreads had relatively little effect on SaskEnergy. SaskEnergy did not hold any investments in the commercial paper markets or asset-backed securities and continued to have good access to short-term money markets at reasonable rates. The Province also continued to have good access to short-term money markets at interest rates that were only marginally affected by the sub-prime mortgage issue.

Liquidity and Capital Resources

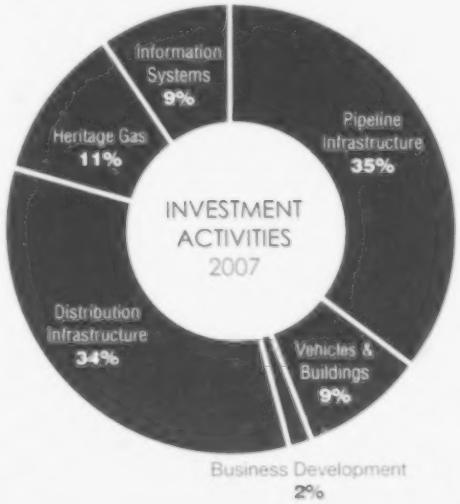
OPERATING ACTIVITIES

In 2007, cash provided by operating activities was lower than in 2006. Net income before fair market value adjustments and amortization increased by $9 million in 2007. However, this increase was more than offset by greater expenditures on natural gas which was injected into storage and remained there at year-end. This natural gas is being held for resale in 2008 and subsequent years when it is expected to generate additional margin and cash flow for SaskEnergy.

	2006 (millions)	2007 (millions)
Income net of non-cash items	$ 105	$ 119
Net change in non-cash working capital related to operations	20	(17)
Cash provided by operations	$ 125	$ 102

INVESTING ACTIVITIES

During 2007, cash used for investing activities was $85 million compared to $82 million in 2006. Investments were made on the following projects:



SaskEnergy is planning future capital expenditures of approximately $550 million over the next five years. Most of this additional capital will be spent for the purpose of maintaining, improving and expanding the natural gas transmission and distribution systems within the Province. Approximately $133 million of the total amount has been budgeted for new business development projects within the Province of Saskatchewan.

FINANCING ACTIVITIES

During 2007, SaskEnergy's cash used in financing activities was $15 million. Dividend payments to CIC accounted for a $58 million outflow of cash and was higher than the amount paid in 2006 due to an improvement in SaskEnergy's net income.

	2006 (millions)	2007 (millions)
Debt repayments (including debt retirement funds)	$ (46)	$ (49)
Proceeds from new debt issues	39	75
Payment of dividends	(28)	(58)
Bank indebtedness and short-term debt	(10)	17
Cash used in financing activities	$ (45)	$ (15)

SaskEnergy raised approximately $75 million of cash by issuing long-term debt, $49 million of which was used to repay debt that matured during the year. Over the next three years, SaskEnergy will need to issue sufficient debt to repay approximately $194 million of maturing long-term debt in addition to the incremental capital required to pursue business development opportunities. SaskEnergy currently has the necessary access to capital resources to accommodate its funding requirements.

SUMMARY

SaskEnergy's access to capital through the Province of Saskatchewan and the continued profitability of utility business operations provide the capital resources and liquidity necessary for continued operation, expansion and development of new business opportunities and maintaining a safe and reliable pipeline system.

Risk Management

The transmission, storage, distribution and sale of natural gas business activities are subject to a number of risks which can affect the success of SaskEnergy in achieving its business objectives. The risks, their potential impact on the business and SaskEnergy's risk management strategies are discussed in the following table. SaskEnergy's approach to risk management is to accept only those risks which it has appropriate resources, expertise and financial capacity to manage. Additionally, SaskEnergy endeavours to fully understand the nature of the risks it accepts and the impact of those risks so that effective policies and procedures can be developed.

Risk Type	Significance	What is it?	Description	Impact	How is it managed?
Natural gas price risk	Very High	Risk of natural gas costs rising above the rate at which the natural gas is sold to customers.	SaskEnergy's exposure to natural gas price risk occurs primarily because the Corporation purchases natural gas at variable market prices and resells this natural gas to utility customers at fixed rates.	A $1.00 per GJ change in the market price of natural gas affects the annual purchase cost of natural gas by approximately $55 million.	The risk of natural gas costs rising above the rate at which the natural gas is sold to utility customers is mitigated through SaskEnergy's natural gas price risk management program. Also, SaskEnergy accumulates differences between the cost of gas sold and its rate in a Gas Cost Variance Account (GCVA). The balance in the GCVA may be recovered from or refunded to customers in subsequent periods.
		Risk of selling natural gas at a price lower than the purchase cost.	SaskEnergy buys and sells natural gas in its natural gas marketing business and may be exposed to price movement for short periods.	Losses are limited to less than $2 million per year by policy.	The natural gas price risk is subject to the natural gas marketing risk management policy, which limits the amount of exposure to price volatility and establishes a program to measure, monitor and report on natural gas price risk daily.
Winter weather	High	Changes in winter weather affect distribution utility revenue.	In Saskatchewan, variability in winter weather temperature has a direct impact on the natural gas consumed by utility customers.	Every 10 per cent change in heating degree days affects SaskEnergy's distribution utility revenue by approximately $7 million.	SaskEnergy recovers a portion of its revenue through a fixed basic monthly charge which ensures SaskEnergy earns revenue from its customers regardless of the level of natural gas consumption.
		Variability in winter weather throughout North America has a direct impact on the prices SaskEnergy pays for natural gas.	Generally, a cold winter will result in higher natural gas prices while a warm winter will result in lower prices.	The impact of higher or lower natural gas prices is discussed under the natural gas price risk discussion above.	Management of natural gas prices is discussed under the natural gas price risk discussion above.

Risk Management

Risk Type	Significance	What is it?	Description	Impact	How is it managed?
Operational risk	High	The risk of disruption to the effective operation of SaskEnergy's natural gas storage, distribution or transmission infrastructure potentially resulting in financial loss or service interruption.	Examples of operational hazards include severe weather conditions; fire; human error; mechanical failures; third-party encroachment on a pipeline; hazardous materials; and acts of civil disobedience, sabotage and riots.	Operational risks threaten service reliability as well as employee and public safety and damage pipelines.	SaskEnergy mitigates its operational risks through public awareness programs, employee and operator training, operating manuals and procedures, integrity and maintenance programs and safety programs. In addition, the financial impact of these risks is mitigated, where possible, through insurance. Additionally, the pipeline system is designed with sufficient capacity to meet customer demand in an extremely cold winter. When the system is not operating at capacity, the winter design capacity enables the system to meet demand even in the event of a disruption. SaskEnergy's participation in *Sask 1st Call* is also key to managing damage prevention to its underground facilities.
Regulatory risk	High	Uncertainty presented by decisions made in the rate regulatory process.	The rates that utilities may charge their customers for services are determined in a regulatory process. The decisions of the regulatory body (in the case of SaskEnergy it is the Saskatchewan Rate Review Panel and the Cabinet Committee of the Provincial Government) have a direct effect on the financial results of the utility.	The impact of a 1 per cent differential between a commodity rate increase request and the approved commodity rate is approximately $4 million.	SaskEnergy follows standard accepted regulatory principles in designing rates and operating its system and presents these practices to the regulator in its rate applications.
Counterparty credit risk	High	The risk that counterparties in a contractual agreement fail to meet their financial obligations.	Failure of a counterparty to fulfill contractual financial commitments due to financial distresses such as bankruptcy and insolvency.	The amount of credit extended to individual counterparties is limited so that the annual expected loss from credit risk averages less than $3.5 million and should never exceed $30 million in a single year.	SaskEnergy mitigates credit risk by constantly reviewing the credit-worthiness of large customers and contractual counterparties; limiting the maximum amount of credit extended to any entity; and by continual monitoring of customer and counterparty credit. Additionally, credit checks and reviews are performed before any transactions are completed and entities judged to have inadequate credit are required to post security.

Risk Management

Risk Type	Significance	What is it?	Description	Impact	How is it managed?
Customer credit risk	Moderate	The risk of financial loss resulting from customers' failure to pay for services and product delivered.	SaskEnergy delivers natural gas to its customers and bills them for the natural gas delivered at the end of each month. When a customer fails to pay, SaskEnergy realizes a financial loss equivalent to the cost of the natural gas delivered and the cost of delivering the natural gas.	Bad debts of SaskEnergy's customers have historically been between 0.15 per cent and 0.54 per cent of distribution revenue.	SaskEnergy mitigates its credit risk by requiring new commercial or industrial customers to provide a security prior to receiving service. Customers who have established a poor payment history and who have been disconnected for non-payment must also provide a security in addition to repayment of their outstanding balance and other charges before service is restored. In addition to security, SaskEnergy applies a late payment charge on delinquent payments that are not received before the due date.
Interest rate risk	Moderate	Risk that changes in interest rates will increase interest expense and cost of service.	SaskEnergy has a significant capital investment in physical assets. Approximately 65 per cent of that investment is financed by issuing debt. The interest paid on debt used to finance assets is a significant component of SaskEnergy's cost structure.	For every $10 million of debt issued in a year, a 0.25 per cent change in the interest rate will affect annual interest expense by approximately $25,000. SaskEnergy refinances approximately $50 million of long-term debt each year.	SaskEnergy manages interest rate risk by requiring all long-term capital requirements to be financed with long-term fixed rate debt, thereby minimizing the impact of changing interest rates on financial results. Furthermore, SaskEnergy manages the maturity dates on its debt to minimize the impact of interest rate risk in any single year. In addition, SaskEnergy may use financial instruments to hedge short-term debt from changes in interest rates.

Risk Management

Risk Type	Significance	What is it?	Description	Impact	How is it managed?
Environmental risk	Moderate	The risk that the activities of SaskEnergy may cause temporary or permanent damage to the environment. Also, the risk that required environmental initiatives may affect SaskEnergy's cost structure.	Gathering, compression, storage, transmission and distribution of natural gas involves using certain chemicals and materials that are considered hazardous to the environment and require special handling procedures. International Greenhouse Gas (GHG) conventions present additional risk to SaskEnergy because methane, the largest component of natural gas, is considered a GHG. Consequently, the release of natural gas into the environment may contribute to global warming.	Uncontrolled release of liquid substances or natural gas into the environment (soil, water and air).	The environmental risks presented by natural gas and certain chemicals and materials are mitigated by proper handling and containment procedures, product substitution as well as employee and operator training. SaskEnergy is working to reduce its GHG emissions to limit its impact on the environment and to manage the financial risks associated with this environmental issue.
Implementation risk	Moderate	Failure to effectively implement business development strategies leads to losses.	A shortage of manpower or expertise adversely affects SaskEnergy's ability to properly assess or implement an effective business development strategy.	Growth opportunities may be less profitable than current enterprise, reducing overall income.	SaskEnergy has developed a strategic plan to ensure that adequate resources are acquired and applied in areas of highest priority.

Risk Management

Risk Type	Significance	What is it?	Description	Impact	How is it managed?
Declining system throughput	Low	Declining natural gas reserve life.	While there are currently adequate supplies of natural gas to meet demand within Saskatchewan, the age and declining reserve life of the Western Canadian Sedimentary Basin remains a longer-term issue.	As throughput declines, the unit cost of service increases.	SaskEnergy promotes the conservation efforts of its customers. In the future, non-conventional sources of natural gas such as the Mackenzie Valley Pipeline, natural gas in coal and liquified natural gas will supplement conventional supplies.
		Conservation initiatives.	Conservation initiatives by customers have reduced the average volume of natural gas usage per customer. Conservation initiatives tend to have a higher impact on customer usage in a high natural gas price environment.	As use per customer declines, the fixed costs of the pipeline system are recovered over smaller sales volumes.	SaskEnergy incorporates an assumption for declining use per customer in its revenue forecasts and rate-setting process.
Provincial economy	Low	Economic growth affects growth in SaskEnergy's utility business.	SaskEnergy currently serves more than 90 per cent of all communities in Saskatchewan. Increasingly, it is becoming difficult to economically expand service to areas not currently receiving natural gas distribution service. Opportunities to expand service depend upon economic growth within the existing service area. Recently, economic growth has put pressure on SaskEnergy's capacity to meet demand for new services.	Growth in the number of customers within the existing service area helps to reduce the unit cost of service. Higher construction and maintenance costs.	SaskEnergy has cost containment strategies to ensure that rising costs do not significantly exceed the growth of the system. Service is only expanded where the anticipated incremental revenue is sufficient to recover incremental cost of service to ensure that existing customers are not adversely affected by the addition of new customers. SaskEnergy has franchise rights to provide distribution service to customers within Saskatchewan and an implied obligation to meet customers' demand where economically feasible.

Critical Accounting Policies and Estimates

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles applied on a consistent basis. The Corporation's accounting policies are described in Note 2 to the accompanying Consolidated Financial Statements. The preparation of these statements requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and judgments are prepared using assumptions management believes to be most probable in the circumstances. As a result, actual results may vary from these estimates. SaskEnergy's critical accounting policies and estimates are summarized below.

AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

The Corporation's property, plant and equipment is amortized on a straight-line basis over the estimated service life of the asset. SaskEnergy assesses the estimated service life of its assets on an ongoing basis. Any resulting changes in the estimated service life of an asset are treated as a prospective adjustment to amortization.

FINANCIAL INSTRUMENTS

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments – Recognition and Measurement, Section 3861 – Financial Instruments – Presentation and Disclosure, and Section 3865 – Hedges. Upon adoption of these new standards, all financial instruments were recorded at fair value on the Consolidated Statement of Financial Position. This change in accounting policy and its impact are discussed in Note 3 of the Consolidated Financial Statements.

There are two new financial statements resulting from the adoption of the financial instrument standards: the Statement of Comprehensive Income and the Statement of Accumulated Other Comprehensive Loss. These new financial statements incorporate other comprehensive income which represents unrealized gains and losses on certain derivative instruments of the Corporation.

REVENUE RECOGNITION

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. The volume of natural gas delivered but unbilled as at December 31 must be estimated as it is neither cost-effective nor practical to read all customer meters on December 31 each year. The volume of unbilled sales is determined by comparing the total volume of natural gas purchased by the distribution system to the total estimated volume of natural gas delivered to customers. Regular meter readings are used to reconcile volumes purchased to volumes billed.

COST OF GAS SOLD

The cost of natural gas sold includes the cost of purchasing natural gas in the open market, transportation, direct operating costs related to supply acquisition and natural gas inventory carrying costs. Natural gas derivative instruments with financial institutions or other counterparties are used to reduce the effect of fluctuations in purchase prices by fixing the effective settlement price. Natural gas derivative instrument settlements and fair value adjustments on outstanding risk management derivative financial and non-financial instruments are also included in the cost of natural gas sold. Most natural gas purchase contracts are priced according to a monthly average market price.

GAS MARKETING

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded in the statement of income when the counterparty takes possession of the natural gas.

Competitive natural gas sales transactions may occur in which the Corporation enters contracts that require either the physical delivery or receipt of natural gas in a future period. These contracts are often structured so that the settlement price is determined at the time of delivery or receipt. The gain or loss is the difference between the sales revenue and the average cost of natural gas required to fulfill those sales.

Prior to settlement, SaskEnergy records the natural gas contracts at fair value. Changes in the fair value of the contracts due to a change in market prices, up to the date of settlement, are recorded as gains or losses in the statement of income in the period of change. Due to fluctuations in natural gas prices, fair value adjustments vary throughout the length of the contract.

Consolidated Financial Statements

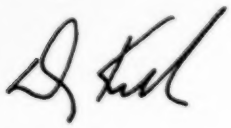
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements are the responsibility of the management of SaskEnergy. They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments where applicable.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the financial statements and all other financial information contained in this Annual Report. Management is also responsible for maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial statements. The internal control system includes an internal audit function and an established code of conduct.

The Corporation's Board of Directors (the Board), is responsible for ensuring that management fulfills its responsibilities for financial reporting and control. The Board is assisted in exercising its responsibility through its Audit and Finance Committee (the Committee). The Committee is composed of independent directors who are not employees of the Corporation. The Committee reviews the Annual Report and meets regularly with management, internal audit and the external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements and subsidiary financial statements.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by the Crown Investments Corporation of Saskatchewan. The Auditors' Report expresses their opinion on the fairness of the financial statements prepared by management.



Doug Kelln
President
and Chief Executive Officer

Greg Mrazek
Vice President, Finance
and Chief Financial Officer

February 15, 2008

Consolidated Financial Statements

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2007 and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SaskEnergy Incorporated

Consolidated Statement of Financial Position
As at December 31
(millions of dollars)

	2007	2006 (Restated)
ASSETS		
Current assets		
Cash	$ 2	$ –
Accounts receivable (Note 4)	131	139
Natural gas in storage held for resale	149	124
Inventories of supplies	13	7
Debt retirement funds (Note 5)	3	4
Fair value of derivative instruments	26	1
	324	275
Property, plant and equipment (Note 6)	978	955
Natural gas in storage held for resale and operations	36	32
Debt retirement funds (Note 5)	40	34
Investments and other assets (Note 7)	33	31
	$ 1,411	$ 1,327
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities		
Bank indebtedness	$ –	$ 2
Short-term debt (Note 8)	88	69
Accounts payable (Note 9)	144	138
Dividend payable	7	12
Current portion of long-term debt (Note 8)	75	48
Fair value of derivative instruments	18	14
	332	283
Long-term debt (Note 8)	633	632
	965	915
Province of Saskatchewan's equity		
Retained earnings	379	342
Accumulated other comprehensive loss (Note 10)	(5)	(2)
	374	340
Equity advances (Note 11)	72	72
	446	412
	$ 1,411	$ 1,327

Commitments and contingencies (Note 12)

(See accompanying notes)

On behalf of the Board:

Director

Director

SaskEnergy Incorporated

Consolidated Statement of Income and Retained Earnings
Years ended December 31
(millions of dollars)

	2007	2006
REVENUE		
Commodity sales	$ 400	$ 389
Gas marketing sales	485	594
Delivery	167	153
Transportation and storage	88	88
Revenue collected for municipalities (Note 14)	24	23
Other	7	7
	1,171	1,254
EXPENSES		
Commodity cost of gas sold	373	395
Gas marketing cost of gas sold	450	558
Operating and maintenance	132	121
Interest (Note 8)	43	44
Amortization (Note 6)	54	53
Payment to municipalities (Note 14)	24	23
Saskatchewan taxes (Note 15)	7	7
	1,083	1,201
Net income	88	53
Retained earnings, beginning of year	342	324
Change in accounting policy (Note 3)	2	–
Dividends	(53)	(35)
Retained earnings, end of year	$ 379	$ 342

(See accompanying notes)

SaskEnergy Incorporated

Consolidated Statement of Comprehensive Income
Years ended December 31
(millions of dollars)

	2007	2006
NET INCOME	$ 88	$ 53
OTHER COMPREHENSIVE LOSS		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	1	–
Unrealized losses on translating financial statements of self-sustaining foreign operations	(3)	–
COMPREHENSIVE INCOME	$ 86	$ 53

SaskEnergy Incorporated

Consolidated Statement of Accumulated Other Comprehensive Loss
Years ended December 31
(millions of dollars)

	2007	2006
ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF YEAR	$ (2)	$ (2)
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	(1)	–
Other comprehensive loss	(2)	–
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF YEAR	$ (5)	$ (2)

(See accompanying notes)

SaskEnergy Incorporated

Consolidated Statement of Cash Flows
Years ended December 31
(millions of dollars)

	2007	2006
OPERATING ACTIVITIES		
Net income	$ 88	$ 53
Add (deduct) items not requiring an outlay of cash		
Amortization	54	53
Other non-cash items – including change in fair value of derivative instruments	(23)	(1)
	119	105
Net change in non-cash working capital related to operations (Note 16)	(17)	19
Decrease in natural gas in storage – non-current	–	1
Cash provided by operating activities	102	125
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(94)	(71)
Acquisition (Note 21)	(6)	–
Additions to investments and other assets	(4)	(2)
Capital contributions received (Note 6)	23	10
Increase in natural gas in storage – non-current	(4)	(19)
Cash used in investing activities	(85)	(82)
FINANCING ACTIVITIES		
(Decrease) increase in bank indebtedness	(2)	2
Increase (decrease) in short-term debt	19	(12)
Debt retirement fund investments	(5)	(5)
(Increase) decrease in deferred charges	(1)	1
Proceeds from long-term debt	75	39
Repayments of long-term debt (net)	(43)	(42)
Dividends paid	(58)	(28)
Cash used in financing activities	(15)	(45)
Increase (decrease) in cash during the year	2	(2)
Cash position, beginning of year	–	2
Cash position, end of year	$ 2	$ –

(See accompanying notes)

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy and its wholly owned subsidiaries own and operate natural gas-related businesses located both within and outside Saskatchewan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of SaskEnergy (the Corporation) and its direct and indirect wholly owned subsidiaries, Bayhurst Gas Limited, Bayhurst Energy Services Corporation (and its 10 wholly owned subsidiaries), Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd., Swan Valley Gas Corporation and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of Heritage Gas Limited, accounted for as a joint venture, and the 50 per cent share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 20. The following accounting policies are considered to be significant:

A. NATURAL GAS IN STORAGE

i. Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at the lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis.

ii. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost.

B. INVENTORIES OF SUPPLIES

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

C. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

D. INVESTMENTS

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

E. FINANCIAL INSTRUMENTS

SaskEnergy classifies its financial instruments into one of the following categories: 1) held-for-trading 2) held-to-maturity 3) loans and receivables 4) available-for-sale and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts payable, short-term debt and dividend payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation uses hedge accounting for interest rate swaps used to hedge long-term debt. The effective portion of changes in the fair value is recognized in other comprehensive loss while any ineffective portion of changes in the fair value is recognized immediately in interest expense. Gains and losses are recognized in interest expense in the same period as the hedged item is settled. The Corporation uses hedge accounting for foreign currency forward contracts used to hedge capital expenditures denominated in a foreign currency. Gains or losses are recognized in other comprehensive income and reclassified to amortization expense over the life of the related capital asset. Interest rate swaps and foreign currency forward contracts are designated as cash flow hedges. As at December 31, 2007, the Corporation did not have any outstanding fair value hedges.

Derivative financial instruments that do not qualify as a hedge and derivative financial instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 13.

SaskEnergy selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. The Corporation had outstanding natural gas sales contracts with embedded derivatives as at December 31, 2006 and December 31, 2007. These contracts are for non-regulated contract sales to larger end-use customers in Saskatchewan. These embedded derivatives are recorded at fair value on the statement of financial position.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Province of Saskatchewan's equity.

F. REVENUE RECOGNITION

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed as of December 31, is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

G. COST OF GAS SOLD

The cost of gas sold includes the cost of purchasing natural gas in the open market, risk management derivative financial instrument settlements, fair value adjustments on outstanding risk management derivative

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

financial and non-financial instruments, transportation, direct operating costs related to supply acquisition and natural gas inventory carrying costs.

H. GAS MARKETING

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period.

i. Where the Corporation purchases natural gas in the open market and simultaneously enters into agreements to sell this natural gas, the fixed gain or loss is recognized when the natural gas is delivered to customers.

ii. Where the Corporation enters into natural gas contracts with no initial offsetting purchase or sale, the gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

I. EMPLOYEES' FUTURE BENEFITS

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

J. FUTURE ACCOUNTING POLICY CHANGES

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

The CICA has also issued Section 3031 – Inventories, which allows inventories to be measured at the lower of cost and net realizable value or at fair value if certain criteria are met. In addition, the standard permits the use of specific identification where items are not normally interchangeable, the first-in, first-out (FIFO) method and weighted average method for costing inventory. The last-in, first-out (LIFO) method may not be used under the new standard. This standard is effective for fiscal years beginning on or after January 1, 2008. The Corporation has chosen to apply the weighted average method of cost determination for natural gas in storage, and at December 31, 2007 was examining the impact of choosing to fair value natural gas in storage at each reporting period. At December 31, 2007,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the estimated impact of this decision was not yet determined. The standard may also result in major spare parts and stand-by equipment qualifying as property, plant and equipment. Any reclassification of these assets is not anticipated to have a material impact on the Corporation's financial statements.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, SaskEnergy adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited consolidated financial statements.

Effective January 1, 2007, SaskEnergy adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments – Recognition and Measurement, Section 3861 – Financial Instruments – Presentation and Disclosure and Section 3865 – Hedges.

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Province of Saskatchewan's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include transitional amounts for changes in the fair value of derivative instruments designated as hedges for accounting purposes in prior periods, changes in the fair value of derivative instruments designated as cash flow hedges, and the unrealized gains and losses on translating financial statements of self-sustaining foreign operations.

These new standards require retrospective adoption without restatement with the exception of the translation of self-sustaining foreign operations which requires retrospective application. The effect of this retrospective adoption was reclassification of an accumulated loss of $2 million as at December 31, 2006 from foreign currency translation adjustment to accumulated other comprehensive loss.

In accordance with the transitional provisions upon the adoption of the new standards, $2 million of interest rate swap settlements designated as cash flow hedges have been reclassified from investments and other assets to accumulated other comprehensive loss and will be subsequently recognized in net income over the life of the underlying long-term debt using the effective interest rate method.

The Corporation discontinued the use of hedge accounting on its natural gas derivative instruments on January 1, 2007. In accordance with the transitional rules upon the adoption of the new standards, as at January 1, 2007 $1 million of unfavourable fair value adjustments on previously designated natural gas hedges have been recorded in AOCI and will subsequently be recognized in net income in the same period the original hedged items are recognized in net income. All natural gas derivatives will settle by October 31, 2011. Changes in the fair value of these natural gas derivatives since January 1, 2007 have been recognized in net income and included with gas marketing sales, commodity cost of gas sold and gas marketing cost of gas sold.

Upon the adoption of the new standards, the impact on opening retained earnings of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on financial instruments held-for-trading:

(millions)	January 1, 2007
Debt retirement funds	
fair value adjustments	$ 2
Total assets	$ 2
Retained earnings,	
beginning of year	$ 2
Total liabilities and equity	$ 2

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Upon the adoption of the new standards, the impact of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

(millions)	January 1, 2007
Fair value of derivative instruments – current asset	$ 17
Investments and other assets	(2)
Total assets	$ 15
Fair value of derivative instruments – current liability	$ 16
Accumulated other comprehensive loss, beginning of year	(1)
Total liabilities and equity	$ 15

Upon the adoption of the new standards, the impact of applying this change in accounting policy for the year ended December 31, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

(millions)	December 31, 2007
Gas marketing sales	$ 2
Commodity cost of gas sold	(8)
Increase in net income	$ 10

4. ACCOUNTS RECEIVABLE

(millions)	2007	2006
Unbilled revenue	$ 79	$ 90
Trade accounts	47	46
Other accounts	5	3
	$ 131	$ 139

5. DEBT RETIREMENT FUNDS

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. These debt retirement funds are administered by Saskatchewan's Ministry of Finance. The investments held in these debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 3.8 per cent for 2007 (5.7 per cent for 2006). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: *(millions)*

2008	2009	2010	2011	2012
$ 6	$ 6	$ 6	$ 5	$ 5

Debt retirement funds were previously recorded in long-term debt. For the current year, along with comparative figures, the balance of debt retirement funds has been reclassified to assets according to the current and long-term portions.

6. PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
(millions)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 678	$ 226	$ 452	$ 657	$ 207	$ 450
Distribution	709	228	481	656	210	446
Gathering, treatment and compression	168	71	97	158	66	92
Vehicles, equipment and other	180	101	79	170	97	73
Franchise acquisition costs	2	–	2	2	–	2
Royalty interest	–	–	–	6	6	–
Construction in progress	17	–	17	23	–	23
	$ 1,754	$ 626	$ 1,128	$ 1,672	$ 586	$ 1,086
Less:						
Unamortized customer capital contributions			150			131
			$ 978			$ 955

A. CUSTOMER CAPITAL CONTRIBUTIONS

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

(millions)	2007	2006
Balance, beginning of year	$ 131	$ 124
Contributions received	23	10
Amortization of contributions	(4)	(3)
Balance, end of year	$ 150	$ 131

B. AMORTIZATION

(millions)	2007	2006
Amortization of property, plant and equipment	$ 58	$ 56
Amortization of customer capital contributions	(4)	(3)
	$ 54	$ 53

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.4 per cent during 2007 (3.5 per cent during 2006).

7. INVESTMENTS AND OTHER ASSETS

Investments and other assets are as follows:

	2007		2006	
	Amount *(millions)*	Per cent Ownership	Amount *(millions)*	Per cent Ownership
Equity investments				
i. Gas Sur S.A.				
Initial investment	$ 14	30.0	$ 14	30.0
Accumulated equity earnings	3		2	
Foreign currency translation adjustment	(2)		(1)	
	15		15	
ii. IGASAMEX USA Ltd.				
Initial investment	11	40.1	11	40.1
Accumulated equity earnings	2		1	
Foreign currency translation adjustment	(3)		(1)	
	10		11	
	25		26	
Other receivables	8		5	
	$ 33		$ 31	

EQUITY INVESTMENTS:

i. **Gas Sur S.A.**

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2007 net income was $1 million (2006 – $1 million). The Corporation's share of the foreign currency translation adjustment for 2007 resulted in a $1 million reduction in the balance of the investment in Gas Sur S.A. (2006 – $1 million reduction). The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5 million (2006 – $5 million).

ii. **IGASAMEX USA Ltd.**

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2007 net income was $1 million (2006 – $1 million). The Corporation's share of the foreign currency translation adjustment related to the investment in IGASAMEX USA Ltd. for 2007 resulted in a $2 million reduction in the balance of the investment in IGASAMEX USA Ltd. (2006 – no increase or decrease). The cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately $5 million (2006 – $5 million).

8. LONG-TERM AND SHORT-TERM DEBT

	2007		2006	
Years to Maturity	**Principal Outstanding** *(millions)*	**Average Fixed Interest Rate** *(per cent)*	**Principal Outstanding** *(millions)*	**Average Fixed Interest Rate** *(per cent)*
Province of Saskatchewan				
1 – 5	$ 244	7.1	$ 242	7.5
6 – 10	214	4.7	188	4.9
11 – 15	34	6.7	34	6.7
16 – 35	210	6.9	210	6.9
	702		674	
Unamortized premium/discount and issue costs	(1)		(2)	
Less due within one year	(75)		(48)	
Due to Province of Saskatchewan	626		624	
Other	7	9.7	8	8.5
	$ 633		$ 632	

The effective interest rate on long-term debt was 6.3 per cent.

Debt premium, discount and issue costs were previously recorded in long-term assets. For the current year, along with comparative figures, the balance of debt premium, discount and issue costs have been reclassified to long-term debt.

A. MATURITY DATES

Maturity dates are equivalent to interest rate repricing dates.

B. PRINCIPAL REPAYMENTS

Principal repayments due in each of the next five years are as follows: *(millions)*

2008	2009	2010	2011	2012
$ 75	$ 39	$ 80	$ –	$ 50

C. SHORT-TERM DEBT

During 2007, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 4.3 per cent (2006 – 4.0 per cent).

Short-term debt at December 31, 2007 consists of $88 million (2006 – $69 million) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 3.9 per cent (2006 – 4.2 per cent).

8. LONG-TERM AND SHORT-TERM DEBT (CONTINUED)

D. INTEREST EXPENSE

Interest expense was as follows:

(millions)	2007	2006
Interest expense on long-term debt	$ 44	$ 46
Interest expense on short-term debt	2	2
Amortization of debt premium/discount and issue costs	1	1
Debt retirement fund earnings	(2)	(2)
Interest allocation to commodity cost of gas sold	(2)	(3)
	$ 43	$ 44

Cash interest paid during 2007 on long-term debt was $44 million (2006 – $46 million).

9. ACCOUNTS PAYABLE

(millions)	2007	2006
Supplier payables	$ 77	$ 89
Interest payable	12	12
Other payables	55	37
	$ 144	$ 138

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The balance in accumulated other comprehensive loss consists of the following:

(millions)	2007	2006
Unrealized losses on translating financial statements of self-sustaining foreign operations	$ (5)	$ (2)

11. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

12. COMMITMENTS AND CONTINGENCIES

A. GUARANTEES

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5 million (United States dollars).

B. LETTERS OF CREDIT

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4 million (United States dollar denominated) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

ii. The Corporation has posted a $10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of, natural gas as per the related contract.

C. LEASES

Lease payments are as follows: *(millions)*

2008	2009	2010	2011	2012	Thereafter	Total
$ 3	$ 2	$ 2	$ 2	$ –	$ –	$ 9

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Corporation's financial instruments is listed below:

(millions)	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 709	$ 798	$ 682	$ 779
Debt retirement funds	43	43	38	40

The fair values of the above instruments were based on the following:

i. **Long-term debt** – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. **Debt retirement funds** – The market value of the investments held in the debt retirement fund as determined by Saskatchewan's Ministry of Finance as at December 31.

B. NATURAL GAS DERIVATIVE INSTRUMENTS

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts, notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative financial instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31 has been used to estimate the contract price. In 2007, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

As at December 31, 2007, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

(millions)	2008	2009	2010	2011	2012	Total
Physical natural gas contracts						
Fair value	$ (3)	$ 1	$ –	$ –	$ –	$ (2)
Notional value	(241)	(8)	5	4	–	(240)
Natural gas price swaps						
Fair value	4	4	5	–	–	13
Notional value	4	4	5	–	–	13
Natural gas price options						
Fair value	(3)	–	–	–	–	(3)
Notional value	(3)	–	–	–	–	(3)
Total						
Fair value	$ (2)	$ 5	$ 5	$ –	$ –	$ 8
Notional value	$ (240)	$ (4)	$ 10	$ 4	$ –	$ (230)

Fair value – increase (decrease)
Notional value – estimated net cash inflow (outflow)

At December 31, 2006, derivative financial instruments had a total fair value decrease of $8 million.

The fair values of other financial instruments, including accounts receivable, bank indebtedness, short-term debt, accounts payable and dividend payable approximate their carrying values due to the short-term nature of the instruments.

The change in fair value of financial assets and liabilities is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the impact on net income of these unrealized gains and losses was as follows:

(millions)	2007	2006
Gas marketing sales	$ 8	$ 2
Commodity cost of gas sold	(18)	9
Gas marketing cost of gas sold	6	–
Increase (decrease) in net income	$ 20	$ (7)

C. RISK MANAGEMENT

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy uses for price risk management include natural gas price swaps, options, swaptions and futures contracts.

ii. Foreign currency exchange and interest rate risk

The Corporation uses derivative financial instruments to manage the interest rate

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

risk on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options and interest rate swaps. For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

iii. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties. At December 31, 2007 the maximum credit exposure to a single counterparty was $8 million (2006 – $5 million).

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with large, credit-worthy counterparties in accordance with established credit approval policies.

14. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

A. NATURAL GAS DISTRIBUTION

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of income. In 2007, revenue collected and paid to municipalities was $21 million (2006 – $20 million).

B. NATURAL GAS TRANSMISSION

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the statement of income. In 2007, revenue collected and paid to municipalities was $3 million (2006 – $3 million).

15. SASKATCHEWAN TAXES

(millions)	2007	2006
Corporate capital tax	$ 5	$ 5
Mitigation payments and property taxes	2	2
	$ 7	$ 7

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

16. NET CHANGE IN NON-CASH WORKING CAPITAL

(millions)	2007	2006
Accounts receivable	$ 8	$ 45
Natural gas in storage held for resale	(25)	28
Inventories of supplies	(6)	–
Accounts payable	6	(54)
	$ (17)	$ 19

17. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

(millions)	2007	2006
Revenue	$ 49	$ 48
Operating expenses	29	28
Customer capital contributions	14	5
Accounts receivable	2	3
Accounts payable	1	1

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

18. SUPPORT FOR LA RONGE NATURAL GAS SERVICE PROJECT

On December 4, 2006 the Government of Saskatchewan approved an appropriation of $7 million (titled – "SaskEnergy Incorporated Vote 77") to establish support for the La Ronge Natural Gas Service Project. The funding is required to support a SaskEnergy project to extend natural gas service to La Ronge and Weyakwin in north-central Saskatchewan. This funding was to supplement an investment made by SaskEnergy and contributions by residential and commercial customers. Funding from the General Revenue Fund, a related party, was received in 2007.

19. EMPLOYEE FUTURE BENEFITS

A. PENSION PLANS

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $4 million (2006 – $3 million) on behalf of employees for current services.

B. RETIRING ALLOWANCE PLAN

The amounts related to the defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

(millions)	2007	2006
Accrued benefit liability	$ 16	$ 14
Benefits paid during the year	1	1
Net expense	3	2

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2007	2006
Discount rate	5.0 per cent	4.5 per cent
Inflation rate	2.5 per cent	2.5 per cent
Average remaining employee service life	9.0 years	11.4 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

19. EMPLOYEE FUTURE BENEFITS (CONTINUED)

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

20. RATE REGULATION

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of the following entities is as follows:

A. SASKENERGY INCORPORATED – DISTRIBUTION DIVISION (SASKENERGY)

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2f. SaskEnergy's delivery revenue was $158 million for 2007 (2006 – $146 million) and commodity revenue was $395 million for 2007 (2006 – $386 million).

Cost of gas sold is accounted for in accordance with the policy described in note 2g.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2f. The amounts accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

B. TRANSGAS LIMITED (TRANSGAS)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2f. TransGas transportation revenue was $66 million for 2007 (2006 – $72 million).

C. MANY ISLANDS PIPE LINES (CANADA) LIMITED (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2f. MIPL transportation revenue was $1 million for 2007 (2006 – $2 million).

20. RATE REGULATION (CONTINUED)

D. SWAN VALLEY GAS CORPORATION (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $1 million for 2007 (2006 – $1 million) and commodity revenue was $1 million for 2007 (2006 – $1 million).

E. HERITAGE GAS LIMITED (HERITAGE GAS)

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Return on rate base

Heritage Gas is allowed to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The rate base is the aggregate of Heritage Gas' investment in property, plant and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital excluding the interest free loan from the Province of Nova Scotia. The return is based on Heritage Gas' regulated capital structure as approved by the NSUARB.

ii. Regulatory process – delivery tariff

Heritage Gas' delivery tariffs are determined through a General Tariff Application (GTA) process which establishes the revenue requirement and the rates to be charged to various customer classes as approved by the NSUARB. The GTA process completed in 2007 established the revenue requirement and rates to be charged for the period January 1, 2007 to December 31, 2011.

iii. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use an RDA until it is fully recovered. The RDA changes based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return, and the RDA will be drawn down. Heritage Gas projects to fully recover its RDA by 2021.

The RDA as at December 31, 2007 was $9 million (December 31, 2006 was $5 million). The effect of the RDA accumulation was to increase revenue in 2007 by $3 million (2006 – $2 million).

iv. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The calculation method and rate of AFUDC have been approved by the NSUARB.

v. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

vi. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is made only for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

21. JOINT VENTURES

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent proportionate share of Heritage Gas Limited, accounted for as a joint venture, and its 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

A. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(millions)	2007	2006
Current assets	$ 4	$ 2
Property, plant and equipment	43	26
Regulatory receivable	8	5
Current liabilities	(6)	(3)
Investment in joint ventures	$ 49	$ 30

B. CONSOLIDATED STATEMENT OF INCOME

(millions)	2007	2006
Revenue	$ 10	$ 6
Expenses	(6)	(4)
Income from joint ventures	$ 4	$ 2

C. CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)	2007	2006
Cash provided by (used in) operating activities	$ 1	$ (1)
Cash used in investing activities	(11)	(9)
Decrease in cash	$ (10)	$ (10)

22. ACQUISITION

On November 1, 2007, the Corporation acquired 50 per cent of an existing natural gas processing plant and gathering system, the Kisbey Gas Gathering and Processing Facility. This plant is operated through an unincorporated joint venture. The purchase price of $6 million was allocated to property, plant and equipment.

23. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

Corporate Governance

BOARD OF DIRECTORS*

Robert Pletch, Chair

Nadine Krenosky, Vice Chair

Jim Baker

David Bishop

Ralph Hesje

Daryl Labach

Brad Nelson

James Rybchuk

Victor Thomas

**As of February 12, 2008*

EXECUTIVE COMMITTEE

Doug Kelln, President and Chief Executive Officer

Larry Braun, President, Communications, Energy and Paperworkers Union (CEP), Local 649

Debbie Brown, Vice President, TransGas Market Services and System Management

Mark Guillet, Vice President, General Counsel and Corporate Secretary

Robert Haynes, Vice President, Human Resources

Colleen Huber, Vice President, Corporate Support

Greg Mrazek, Vice President, Finance and Chief Financial Officer

Ron Podbielski, Executive Director, Corporate Affairs

Daryl Posehn, Senior Vice President, Gas Supply and Business Development

Dean Reeve, Executive Vice President, SaskEnergy

Phil Sandham, Vice President, TransGas Operations and Engineering

Corporate Governance

A. AUTHORITY

SaskEnergy is a statutory Crown corporation governed by *The SaskEnergy Act* and *The SaskEnergy Regulations*. By legislation, Crown Investments Corporation of Saskatchewan (CIC) is the holding corporation for Saskatchewan's commercial Crown corporations. CIC has the authority to establish direction for SaskEnergy related to matters set out in its legislation.

The Board of Directors (the Board) oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, who is an independent director, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister Responsible functions as a communications liaison among the Corporation, CIC, Cabinet, the Provincial Legislature and the public.

B. BOARD RESPONSIBILITIES

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic plan and annual business plan. The Board also exercises its responsibility to oversee and ensure adherence to *The SaskEnergy Act*.

C. BOARD COMPOSITION

SaskEnergy's Board is representative of Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints Board members and designates the Chair and Vice Chair. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, sound judgment and initiative. Board members are committed to serving the Corporation, and in so doing, serving Saskatchewan people through emphasis on promoting customer service, productivity, profitability, co-operation and sound environmental stewardship.

D. COMMITTEES

The Board established the following five committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee
- Business Development Committee
- Governance Committee
- Human Resources/Compensation Committee
- Safety, Health and Environment Committee

AUDIT AND FINANCE COMMITTEE

Chair: Nadine Krenosky

The mandate of the Audit and Finance Committee is to assist the Board in meeting its responsibilities by ensuring the adequacy and effectiveness of the financial reporting, internal controls, management information systems and risk management. In addition, it interacts directly with the internal and external auditors, and ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan, annual business plan and public policy objectives.

BUSINESS DEVELOPMENT COMMITTEE

Chair: Michael Chorlton*

The Business Development Committee mandate is to assist the Board in oversight of new, non-core utility functions, strategic and tactical investments and business opportunities.

* As of December 31, 2007

GOVERNANCE COMMITTEE

Chair: Peter Bergbusch*

The Governance Committee is responsible for the development and maintenance of SaskEnergy's corporate governance practices. Also, its duties include evaluating the performance of the Board, Committee chairs and individual directors and establishing appropriate Board and Board committee structure, composition and mandate.

HUMAN RESOURCES/COMPENSATION COMMITTEE

Chair: Ralph Hesje

The Human Resources/Compensation Committee mandate is to oversee SaskEnergy's human resource strategies, programs and practices to ensure that SaskEnergy is a corporate leader in the development and implementation of proactive human resource strategies, compensation and succession planning.

SAFETY, HEALTH AND ENVIRONMENT COMMITTEE

Chair: Eldon Lindgren*

The Safety, Health and Environment Committee is charged with ensuring that the Corporation proactively addresses safety, health and environmental issues, incorporates them into SaskEnergy's vision, mission and values and has adequate and effective controls in place to monitor compliance with regulatory and statutory requirements.

E. GOVERNANCE PRACTICES

SaskEnergy's approach to corporate governance practices is substantially consistent with the guidelines set forth in the Canadian Institute of Chartered Accountants (CICA) Handbook and the Canadian Securities Administrators (CSA) National Policy 58-201 – Corporate Governance Guidelines, and National Instrument 58-101 – Disclosure of Corporate Governance Practices.

The National Policy and National Instrument address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. Although SaskEnergy is not legally obligated to comply with the CSA governance guidelines, the Corporation has benchmarked its Corporate governance practices against the CSA National Policy and Instrument Guidelines in the following corporate governance scorecard.

* As of December 31, 2007

Corporate Governance

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2007 (Summary)	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
1. **BOARD OF DIRECTORS COMPOSITION** The board should have a majority of independent directors.	There are 10 individuals appointed to the SaskEnergy Board. There is a majority of independent directors.	Yes
Disclosure of significant shareholders (ability to exercise the majority of votes to elect directors):	SaskEnergy as a statutory Crown corporation does not have any issued share capital. Although CSA review of governance of controlled companies is in progress, this feature is not applicable to SaskEnergy.	Not applicable
(a) Disclose the identity of directors; and (b) Describe who is independent and the basis for the determination of independence.	**Heather D. Heavin**, Chair: INDEPENDENT Assistant Professor of Law, University of Saskatchewan **Leanne Bellegarde Daniels:** INDEPENDENT Director of Aboriginal Services, University of Saskatchewan **Peter Bergbusch**: INDEPENDENT Lawyer, Balfour, Moss **Donald Ching**, Vice Chair: INDEPENDENT President & CEO, AREVA Resources Canada inc. **Michael W. Chorlton:** INDEPENDENT President & CEO, Parkland Income Fund **Ralph Hesje:** INDEPENDENT President, CCS Energy Services (a CCS Income Trust Company) **Nadine Krenosky:** INDEPENDENT Vice President, Compliance, Greystone Managed Investments Inc. **George E. Lafond:** INDEPENDENT Special Advisor to the President on Aboriginal Initiatives, University of Saskatchewan (Ceased to be a Board member on March 27, 2007) **Eldon Lindgren:** INDEPENDENT Lawyer, Lindgren, Blais, Frank & Illingworth **Florence Norman:** INDEPENDENT Communications, Protection & Control Development Engineer I, SaskPower **Jean Weimer:** NOT INDEPENDENT Assistant to the President of CEP Union, Local 649 (company employee on leave for Union business)	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2007 (Summary)	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
	For the independent directors, none of them, or their "associates", have worked with or for the Corporation or have material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation.	
(c) Indicate whether directors are directors of any other issuer that is a reporting issuer.	Not applicable as SaskEnergy does not have share capital, and is therefore not an issuer.	Not applicable
(d) Do directors hold regularly scheduled in-camera meetings to facilitate open and candid discussion? If so, how many meetings were held in the previous 12 months?	The Board meeting procedures are such that at each regular meeting the Board allocates time on the agenda for an in-camera session whereby Management is excused from the meeting. The Board held nine meetings in 2007.	Yes
(e) The chair should be independent to provide leadership for the directors.	The Board structure at SaskEnergy is such that the Chair of the Board is independent.	Yes
(f) Disclose the attendance record of each director for board meetings held in the most recently completed financial year.	There were nine Board meetings in the calendar year 2007. The following are the attendance statistics for Board meetings: **JANUARY 1, 2007 TO DECEMBER 31, 2007** **Director Board Meetings Attended** Heather D. Heavin, Chair 9 of 9 Leanne Bellegarde Daniels* 6 of 7 Peter Bergbusch 8 of 9 Donald Ching, Vice Chair 8 of 9 Michael W. Chorlton 9 of 9 Ralph Hesje 8 of 9 Nadine Krenosky 9 of 9 George E. Lafond** 2 of 2 Eldon Lindgren 8 of 9 Florence Norman 9 of 9 Jean Weimer 9 of 9 * Leanne Bellegarde Daniels was appointed to the Board on March 27, 2007. ** George E. Lafond ceased to be a Board member effective March 27, 2007. For the purposes of this report, members who attended meetings in part, were considered to be present.	Provided

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2007 (Summary)	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
2. BOARD MANDATE The board should adopt a written mandate which explicitly acknowledges responsibility for the stewardship of the corporation which delineates its roles and responsibilities, including responsibility for:	The Board has written Terms of Reference that sets out its responsibility to function as stewards of the Corporation, and the obligation to manage the affairs and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, corporate plans and management performance. The Board and Committee Terms of Reference are available on the Corporation's website at www.saskenergy.com.	Yes
(a) Satisfaction regarding the integrity of the Chief Executive Officer (CEO) and executive and the creation of a culture of integrity:	The Board acts in accordance with the governing legislation, the Corporation's Code of Business Conduct and Ethics and the Board's Terms of Reference. In 2007, all employees, including the CEO and Executive were required to complete mandatory training on the Code of Business Conduct and Ethics. Management monitors and reports to the Governance Committee any issues arising under the Code of Business Conduct and Ethics.	Yes
(b) The adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business:	One of the Board's principal duties is to provide leadership in setting the Corporation's long-range strategic direction and to approve the Corporation's overall strategic plan. The Corporation's comprehensive strategic planning process results in the review and approval by the Board of the Corporation's strategic plan, annual operating and capital budget and business plan.	Yes
(c) The identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks:	Executive Management and the Board identify the principal risks of the Corporation on an annual basis and directly or through the Audit and Finance Committee, monitor the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks. The Audit and Finance Committee meets regularly to review reports and discuss significant risk areas with internal and external auditors.	Yes
(d) Succession planning, including appointing, training and monitoring senior management:	The Human Resources/Compensation Committee of the Board annually reviews the adequacy of the Corporation's succession planning strategy, performance targets and the performance evaluations of the Executive Officers of the Corporation. The Board supports Management's commitment to training and development of all employees.	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2007 (Summary)	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
(e) A communications policy for the corporation;	SaskEnergy is committed to the principles of transparency, openness and timeliness in communications with its owner, employees, stakeholders and the public. The Corporation complies with communication requirements set by the shareholder and by statute, its Board-approved external communications policy.	Yes
(f) The integrity of the corporation's internal control and management information systems;	While the Board is responsible for risk management, the Audit and Finance Committee is responsible for oversight of financial reporting, internal controls and management information and risk management systems for the Corporation. This Committee reviews the integrity of the internal control processes and financial management information systems in conjunction with the internal and external auditors.	Yes
(g) Development of approach to corporate governance, principles and guidelines;	The Governance Committee is mandated through its Terms of Reference, to be responsible to the Board for governance of SaskEnergy, including issues related to governance and conflict of interest involving Directors and Senior Executives. The Governance Committee annually prepares an Ethics Advisor report to the Board on any issues dealt with in the preceding 12 months. The Corporation has an on-line Governance Handbook site for use by employees of the Corporation and publishes the Terms of Reference for the Board of Directors and its Committees on its website.	Yes
(h) General mandate re: stakeholder feedback, and expectations and responsibilities of directors.	To facilitate feedback from employee stakeholders, the Board has adopted a Whistleblower Policy. The Whistleblower Policy provides a procedure to contact the Board. The Chair of the Board participates in a CIC Chair forum conducted by the statutory shareholder, where feedback and communication is provided to all Crown corporation Board Chairs on the expectations of the statutory shareholder. Building on the base of directors' duties outlined in legislation, Terms of Reference for the Board and its Committees are reviewed annually.	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2007 (Summary)	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
3. POSITION DESCRIPTIONS (a) The board should develop position descriptions for the chair of the board and chair of each board committee;	The Board Chair operates within the statutory requirements of *The SaskEnergy Act*. The Board has approved position descriptions for the Chair of the Board, the Chairs of the Board Committees and for individual Directors which sets out the responsibilities for each.	Yes
(b) Together with the CEO, develop a position description for the CEO delineating management's responsibilities and approving corporate goals and objectives that the CEO is responsible to meet.	The Board has developed the Board's Terms of Reference which outline the responsibilities for the Board and Management. The Board has also approved policies for the execution of documents and expenditure authorities for the CEO and Executive Officers. These policies clearly outline the limits to their authorities and the levels for which matters must receive Board approval. The Board has also approved a CEO mandate document which sets out the CEO's principal duties and responsibilities.	Yes
4. ORIENTATION AND CONTINUING EDUCATION The board should ensure new directors receive comprehensive orientation and fully understand the role and the contribution they are expected to make; and, the board should provide continuing education opportunities for all directors.	The Governance Committee has responsibility to provide ongoing training and education to the Board in accordance with the Board of Directors Training Policy. This policy outlines the Corporation's commitment to the orientation and training of its incoming Board members and the ongoing training and industry education for current Board members. This policy outlines the comprehensive orientation material to be provided to incoming Board members. As part of the ongoing training for Board members, the Corporation provided an industry training session and CIC has facilitated additional training sessions as part of its Subsidiary Crown Directors Training Program for Board members.	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2007 (Summary)	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
5. CODE OF BUSINESS CONDUCT AND ETHICS (a) The board should adopt a written code of business conduct and ethics applicable to directors, officers and employees of the corporation which is designed to promote integrity and deter wrongdoing. The code should address conflicts of interest, protection, proper use of corporate assets and opportunities, confidentiality, fair dealing, compliance with laws, rules and regulations and provide a mechanism to report illegal or unethical behaviour.	Directors of the Corporation are required to abide by CIC's Directors' Code of Conduct. The Governance Committee, as the Ethics Advisor to the Board, is required to administer, monitor and enforce the Directors' Code of Conduct, which includes reporting annually to the Board concerning compliance. Also, it is standard procedure that the first item on the agenda for any regular Board meeting is an opportunity for Board members to declare any conflicts of interest or any changes to outside employment or directorships they hold which may create a potential conflict of interest. The Board has also approved and adopted a written Code of Business Conduct and Ethics (the "Code"), which is applicable to all employees, officers and directors of the Corporation. The Code, which is designed to promote integrity and deter wrong doing, is based on values of fairness and honesty, equal treatment and accountability. The Code provides guidelines on handling information of the Corporation's assets, confidentiality, conduct with suppliers and customers, business history, international business, conflicts of interest, compliance with laws and policies and reporting. Employees of the Corporation received mandatory annual training in 2007 on the Code and the Corporation's Privacy policies, which are posted on the Corporation's intranet site. The Board has approved a Whistleblower Policy to promote reporting of any irregularities. In 2007, the Corporation also introduced a third-party confidential whistleblower mechanism for employees to report wrongdoing. The Corporation has annual mandatory governance training which educates employees on the Code and in 2007 included training on the Whistleblower Policy.	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2007 (Summary)	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
(b) The board should monitor compliance with the code and grant any waivers required for directors and executive officers. Any waivers for a material departure from the code for any directors or officers should be granted by the board.	The Human Resources/Compensation Committee is required to monitor compliance with the Code of Business Conduct and Ethics. Any irregularities raised under the Whistleblower Policy will be reported to the Governance Committee. In addition, the Audit and Finance Committee is required to monitor the effectiveness of financial controls and receive reports of internal and external auditors on the adequacy of those controls. In 2007, there were no waivers granted by the Board to any director or officer.	Yes
6. NOMINATION OF DIRECTORS (a) The board should appoint a nominating committee composed of entirely independent directors, with a written charter establishing the committee's purpose, responsibilities, member qualifications, appointment, removal, structure and operations.	The Corporation does not have a separate nominating Committee. SaskEnergy's Governance Committee is responsible for annually assessing the size, composition, and required qualifications of the Board to determine whether it has the necessary constituents for effective decision making. All of the Governance Committee members are independent. The Governance Committee has authority to engage and compensate any outside advisor it determines necessary to assist with carrying out its duties. In carrying out these functions, the Board considers the advice and the input of the Governance Committee, and makes recommendations to CIC, who makes recommendations to Cabinet, the Corporation's statutory shareholder, who is given the Legislative authority to appoint directors.	Yes
(b) The board should adopt a nomination process which first considers the competencies and skills of the board as a whole; assesses the competencies and skills possessed by each existing director; and, identifies competencies and skills each new nominee would bring to the board, including the ability to devote sufficient time and resources to the job.	The Governance Committee is charged with assessing the skills and competencies for the Board and its Committees to support the strategic direction and operational needs of the Corporation. The Committee is responsible for performing a skills gap analysis intended to assist achieving a balance of the skills of Board members through the appointment of new members. The Governance Committee is also responsible for the ongoing assessment of Directors, their training and skill set review. Position descriptions for the Chair of the Board, the Chairs of Board Committees and individual Directors were developed and approved in 2006 and these will assist in determining skill training opportunities. (For reference: *The SaskEnergy Act* requires appointment of directors through Order-in-Council, and sets a limitation on the Board's authority to recommend candidates only.)	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2007 (Summary)	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
7. COMPENSATION (a) The board should appoint a compensation committee composed entirely of independent directors, with a written charter to establish the committee's purpose, responsibilities, member qualifications, appointment, removal, structure, operations and manner of reporting to the board.	The Human Resources/Compensation Committee is comprised of independent directors, other than Jean Weimer who, as a unionized employee on leave from the Corporation, has a material relationship, and is therefore not independent. This Director does not receive any material or minutes related to management compensation or collective bargaining, and is excluded from any Board or Committee discussion on those topics. The Corporation has appointed a Human Resources/Compensation Committee which has the responsibility to make recommendations to the Board on compensation-related matters. Written Terms of Reference have been established for the constitution and operations of the Committee, and the Committee has been given the authority to engage and compensate any outside advisor it deems necessary.	No Yes
(b) The compensation committee should be responsible for reviewing and approving corporate goals and objectives relative to the CEO's compensation, the CEO's performance in light of those corporate goals and objectives and determining the CEO's compensation level based on the evaluation; as well as reviewing executive compensation prior to public disclosure.	The Human Resources/Compensation Committee annually reviews with the CEO the performance targets and performance evaluation of the CEO and the Executive Officers. The CEO's performance based upon the requirements of the CEO Mandate is assessed against the Corporation's annual objectives and strategic plan. The results of the CEO's performance evaluation are reported to the full Board. The Human Resources/Compensation Committee and the Board annually review the details of the compensation payments to the Executive Officers that are to be reported in the Crown Payee Disclosure Report.	Yes Yes
(c) The compensation committee should be responsible to make recommendations to the Board with respect to director compensation.	The Human Resources/Compensation Committee is responsible for annually reviewing the compensation for the Board members and the Chair, and recommending to CIC for approval any proposed adjustments to compensation levels. CIC is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors.	Yes

CSA National Policy 58-201 and National Instrument 58-101 Disclosure of Corporate Governance Practices 2007 (Summary)	SaskEnergy's Corporate Governance Practices	Consistent with CSA Guidelines?
8. OTHER BOARD COMMITTEES Identify Standing Committees other than audit, compensation and nominating, and describe their function.	In addition to the Audit and Finance, Human Resources/Compensation and Governance standing committees of the Board, the Board has appointed a: (i) Safety, Health and Environment Committee; and (ii) Business Development Committee. These Committees are comprised solely of independent members, except for the Safety, Health and Environment Committee, where Jean Weimer who, as a unionized employee on leave from the Corporation, has a material relationship with the Corporation and is therefore considered a non-independent member. The majority of the Committee members are independent. The constitution, function and mandate of each of the Board Committees are set out in the Terms of Reference for each Committee, each reviewed and updated annually and adopted by the Board.	Yes
9. BOARD ASSESSMENTS The board, its committees and each individual director should be regularly assessed with respect to their effectiveness and contribution in terms of the board or committee's terms of reference, or an individual director's position description and competencies and skills.	The Governance Committee is responsible for implementation of performance evaluations for the Board, each Committee, the Chair and individual Directors. The Committee surveys Directors to provide feedback on the effectiveness and contribution of the Board, Committees, Chairs and individual Directors on a rotational, bi-annual basis. The results are summarized and reported to the Board, as well as the CIC Board of Directors. For 2007, the process consisted of the individual Board and the members completing the evaluation surveys on the effectiveness and performance of the Board and the Board and Committee Chairs. The survey results were summarized and reported to the Board and to the CIC Board of Directors. The 2007 process was conducted with the assistance of an external consultant under the guidance of the Governance Committee.	Yes

Glossary of Key Success Measures

1. OUR PEOPLE

PHYSICAL SAFETY:	
Lost Time Frequency Rate	The lost time frequency rate measures the frequency in which lost time injuries have occurred. A standard duration is used to normalize the results so that company comparisons can be made despite differing workforce sizes. A lost time injury is an injury requiring medical attention and working time is lost following the day of the injury. The formula to calculate the measure is as follows: Lost time frequency rate = number of lost time injuries x 200,000[1] ÷ total hours worked [1] The 200,000 is the standard duration calculated as 100 workers working 40 hours per week for 50 weeks of the year.
Preventable Collision Frequency Rate	The preventable collision frequency rate expresses the frequency of preventable collisions and normalizes the result to enable equitable comparisons with other companies of different size and scale of operations. The formula to calculate the measure is as follows: Preventable Collision Frequency Rate = number of preventable collisions x 1,000,000[2] ÷ total kilometres driven [2] The 1,000,000 is the given standard used by the Canadian Gas Association and Canadian Energy Pipeline Association to facilitate company comparisons.
Medical Aid Frequency Rate	This measure records the frequency of injuries that require medical attention and normalizes the results so that company comparisons can be made despite differing workforce sizes. A medical aid injury is an injury that requires medical attention, but no working time is lost other than that lost on the day of the injury. The formula to calculate the measure is as follows: Medical Aid Frequency Rate = number of medical aids x 200,000 ÷ total hours worked
EMPLOYEE SATISFACTION:	
Employee Satisfaction	The employee satisfaction measure is a composite measure, which is designed to assess SaskEnergy/TransGas employees' overall satisfaction with working at SaskEnergy/TransGas. The measure incorporates employees' opinions on a number of areas including satisfaction with compensation and benefits, job opportunities, work/life balance and developmental opportunities within SaskEnergy/TransGas. The intent behind the measure is to assess the extent to which employees will be prepared to exercise discretionary effort while employed at SaskEnergy. The data for this measure will be obtained through both internal and external employee surveys.
COMPENSATION AND BENEFITS:	
Corporate Competitiveness	The compensation and benefits measure reflects how the Corporation's compensation and benefits programs compare with the 75th percentile of the Saskatchewan marketplace. For the majority of SaskEnergy/TransGas positions, the Saskatchewan marketplace is where employees are selected from and where the Corporation must compete for talent. While there are some exceptions to this measure, including positions that are specific to the oil and gas industry, which are predominantly in Alberta, the Saskatchewan marketplace is felt to be the most appropriate comparative marketplace.

Glossary of Key Success Measures

1. OUR PEOPLE

REPRESENTATIVE WORKFORCE:	
Composition of the Workforce	The representative workforce measures provide quantitative data for the employment of the four equity groups recognized by the Saskatchewan Human Rights Commission as being either underemployed or minimally employed within the Province. These four groups include Aboriginals, women, people with disabilities and visible minorities. SaskEnergy/TransGas also tracks the percentage of "youth" in the workforce, which is defined as employees that are 30 years of age or less. The measure is calculated by comparing the number of employees from these groups relative to the number of total employees that comprise the workforce.
Diversity Hires	This measure records the percentage of new hires that are from the four equity groups discussed above.

2. OUR SERVICE

RELIABILITY AND SERVICE:	
Reliability Index – SaskEnergy	The reliability measure for SaskEnergy is based upon a number of leading and lagging indicators that are averaged to produce a composite result. The calculation methodology provides a 60 per cent weighting for lag indicators and a 40 per cent weighting for lead indicators. The lag indicators focus on system outages and provide reliability ratings based on the causes for the outage (for example – system failure, SaskEnergy operator error or caused by third party) as well as the impacts of the outage in terms of number of customers impacted, duration of the outage and the costs to restore service. The lead indicators provide ratings based upon the percentage of planned maintenance completed and the percentage of training and job observations completed.
Reliability Index – TransGas	The reliability measure for TransGas is based upon a number of leading and lagging indicators that are averaged to produce a composite result. The calculation methodology provides a marginally higher weighting for lead indicators than lag indicators. The lead indicators provide ratings based upon the percentage of planned maintenance completed, the percentage reliability of critical compressor units and the percentage of public awareness contacts completed. The lag indicators focus on unplanned outages that affect customers, transmission line hits and the percentage of service availability for receipt, intra delivery and storage services.
Customer Satisfaction Index – SaskEnergy	The SaskEnergy customer satisfaction measure expresses, in percentage terms, the proportion of customers surveyed that rated their overall satisfaction with SaskEnergy's service as "good", "very good" or "excellent". Positive responses such as these indicate that customers view SaskEnergy service positively and provide strong indication that the customer service tools, policies and staff are effectively meeting the needs of customers. The data for this measure is obtained from customer surveys conducted by independent market research firms.

Glossary of Key Success Measures

2. OUR SERVICE

RELIABILITY AND SERVICE:	
Customer Satisfaction Index - TransGas	This number is derived from an annual Internet-based survey conducted with all TransGas customers. The Internet method is used because all customers utilize electronic business tools to conduct business with TransGas. This year, customer satisfaction is measured on a scale of 0 to 5, with 5 being the highest level of satisfaction. The survey contains 15 questions which in turn are subdivided to gain detailed feedback on various aspects of the service being evaluated. Questions regarding staff utilize four factors to gauge customer satisfaction. These are: Empowerment, Responsiveness, Knowledge and Friendliness. An average is taken on the responses to all 15 questions and reported as a percentage.
Respond Within One Hour to Safety Incidents	This measure reports the percentage for which the response time to safety-related calls and incidents occurs within one hour.

3. OUR GROWTH

BUSINESS DEVELOPMENT:	
Incremental Net Income from Business Development	This measure tracks the annual net income generated from new business development initiatives as well as net income generated from the existing investments SaskEnergy has established through SaskEnergy International Incorporated and SaskEnergy Nova Scotia Holdings Ltd.
Number of Business Opportunities Considered	This measure indicates the number of business development opportunities that are actively under consideration by Business Development each year. These represent opportunities that Business Development staff will dedicate resources, time and attention to investigate and assess.
Number of Business Opportunities Under Development	This measure records the number of opportunities that have been approved by the Executive and Board to proceed each year. These projects will likely be in either negotiation or development stages.
Direct Jobs Created	This measure tracks the approximate number of jobs created from business development activities. It is estimated based on the historical relationship between capital spending and manpower requirements for capital projects as well as on the anticipated growth required in corporate resourcing to help manage and conduct business development activities. It includes only direct jobs created from the development and ongoing operational aspects of the project.

Glossary of Key Success Measures

4. OUR FUTURE

COMPETITIVE RATES:	
SaskEnergy Commodity	This measure reports the ranking of SaskEnergy's cost of natural gas reflected through its commodity rate relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison as are any Government rebates that are not directly approved by the utility's regulator.
SaskEnergy Delivery	This measure reports the ranking of SaskEnergy's natural gas distribution delivery service rates relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison as are any Government rebates that are not directly approved by the utility's regulator.
TransGas Export Rates	As a benchmark measurement on competitive natural gas transportation rates, the TransGas Export Rate is compared to that offered by TransCanada Pipeline's Nova Gas Limited subsidiary (NOVA) – a company that provides services in Alberta similar to those provided by TransGas in Saskatchewan. The measure compares the cost of moving natural gas from any receipt point in Saskatchewan to the export market with the cost of moving natural gas from the average receipt point in Alberta to the export market.
COMMUNITY INVESTMENT:	
Investment	Three specific measures allow SaskEnergy to create a broad social footprint on the Province: its financial investments or donations; the number and diversity of projects it supports; and the number of communities it impacts by supporting these initiatives. SaskEnergy aims to have a broad-ranging impact on the Province, as evidenced by the targets set for the future. SaskEnergy's financial investment is separated into three budgetary categories: the Share the Warmth Fund which allows the Corporation to help community-based projects with support up to $2,500, a general sponsorship fund and an Aboriginal sponsorship fund. Criteria are based upon four specific focuses: Education and Leadership, Community Initiatives, Saskatchewan Pride and Environmental Stewardship. This measure tracks the financial investment SaskEnergy has made through the categories described above. The investment number reflects cash donations and sponsorships only and does not include in-kind contributions.
Projects Supported	This measure tracks the number of projects, events and programs that have been undertaken by the Corporation.
Communities Impacted	SaskEnergy's community investment activities are also measured by the number of urban and rural locations supported each year. Being Saskatchewan's natural gas provider, serving more than 92 per cent of the population, the Corporation strongly believes that its sponsorships and community investments should be directly targeted to the places where its stakeholders live. Year over year, SaskEnergy has targeted between 250 and 300 communities to support.

Glossary of Key Success Measures

4. OUR FUTURE

COMMUNITY INVESTMENT:

Percentage of Goods and Services Sourced in Saskatchewan	SaskEnergy tracks the percentage of goods and services it sources from Saskatchewan suppliers out of the total goods and services acquired. SaskEnergy's goal has been to source goods and services from within Saskatchewan wherever possible, with the expectation that certain necessary goods and services are not available within the Province. This measure is not based on total corporate expenditures, but rather focuses on purchases that are completed by the Purchasing Department.
Total Contracts – Percentage of Aboriginal Labour Content	This measure tracks the percentage of Aboriginal labour content in the Corporation's labour service contracts and supplier alliance agreements managed by the Purchasing Department.

ENVIRONMENTAL:

Investment in Environmental Programs	This measure tracks the level of investment that SaskEnergy makes in environmental programs. The level of spending is affected by the nature and intensity of activities pursued under various environmental programs and initiatives. A brief description of the major environmental programs that SaskEnergy is involved with are provided below. 1. Pipeline and Facility Reclamation – Perform remedial action on pipeline projects to return the condition of the right-of-way to as good as or better than pre-construction. 2. Hazardous Material Storage – Bring and maintain TransGas' facilities to a high standard of integrity by replacing all existing storage tanks and facilities that need upgrading with the latest technology. 3. Site Remediation – Maintain and restore all corporate facilities to a productive and safe state by establishing plans and resources to eliminate environmental impacts. 4. Pollution Prevention – Prevent the release of hazardous substances into the environment from facilities and equipment as a result of process spills, vessels, and point source emissions. 5. Air Quality and Greenhouse Gas (GHG) Initiative – Sustain the initiative by SaskEnergy/TransGas to reduce air emissions (Oxides of Nitrogen (NO_x), Benzene, Toluene, Ethylbenzene, and Xylene compounds (BTEX compounds), and GHGs through combustion efficiency improvements and emission control technologies. 6. Leading Edge Research – Invest in innovative research to reduce the duration and cost of remedial efforts and improve the state of environmental management by the Corporation.
Number of Programs Undertaken	This measure records the number of initiatives that are undertaken by the Corporation. This measure provides a further activity measure to express the intensity of the environmental initiatives to accompany the dollar investment measure. Examples of programs that would be included in this measure are contained in the previous description.
Reduction in Energy Consumption	This initiative consists of corporate energy efficiency and GHG emissions reduction efforts. SaskEnergy has planned activities to realize electrical energy savings at corporate facilities of 800,000 kWh which translates into three Terajoules (TJ). In addition, the Corporation will reduce GHG emissions by 6,200 tonnes of carbon dioxide equivalent ($CO2_e$), which translates into 17 TJ in energy savings. These two initiatives are anticipated to result in a combined reduction of 20 TJ of energy that would otherwise be consumed or lost into the environment.

Glossary of Key Success Measures

4. OUR FUTURE

ENVIRONMENTAL:

Fund and Administer Customer Energy Efficiency Programs	This measure reports the annual expenditures the Corporation has incurred in supporting customer energy efficiency programs. SaskEnergy is administering and delivering several energy efficiency initiatives for the Province of Saskatchewan.
Number of Customers Impacted	This is the number of customers directly benefiting from customer energy efficiency programs funded by SaskEnergy.

GOVERNANCE:

Governance	The governance measure reports the degree of compliance that SaskEnergy maintains with respect to the Canadian Securities Administrator corporate governance guidelines.

FINANCIAL HEALTH:

Debt/Equity Ratio	This measure is calculated by dividing total debt (short- and long-term) by the sum of total debt plus total Province of Saskatchewan's equity.
Rate of Return on Equity	The rate of return on equity is measured by dividing the consolidated net income, before the effects of the commodity margin and fair value adjustments, by the average Province of Saskatchewan's equity over the year. The average is determined using the opening Province of Saskatchewan's equity and the closing Province of Saskatchewan's equity.
Net Income	Net income refers to the total consolidated net income, before the effects of the commodity margin and fair value adjustments. The impact of the commodity margin is excluded as it could introduce a level of volatility in the reported results that would limit the effectiveness of the measure.
Capital Investment	This measure reports the consolidated capital expenditures that result from regular operations.

GLOSSARY OF NATURAL GAS MEASUREMENTS

Joule (J) – a base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

Gigajoule (GJ) – a measure of energy used to express the heating value of natural gas or of energy consumed. One GJ is equivalent to one billion J. An average home uses approximately 130 GJ per year.

Terajoule (TJ) – a unit of energy equivalent to 1,000 GJ.

Petajoule (PJ) – a unit of energy equivalent to 1,000,000 GJ.

Cubic metre (m^3) – a unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home uses between 3,000 and 3,550 m^3 of natural gas per year.

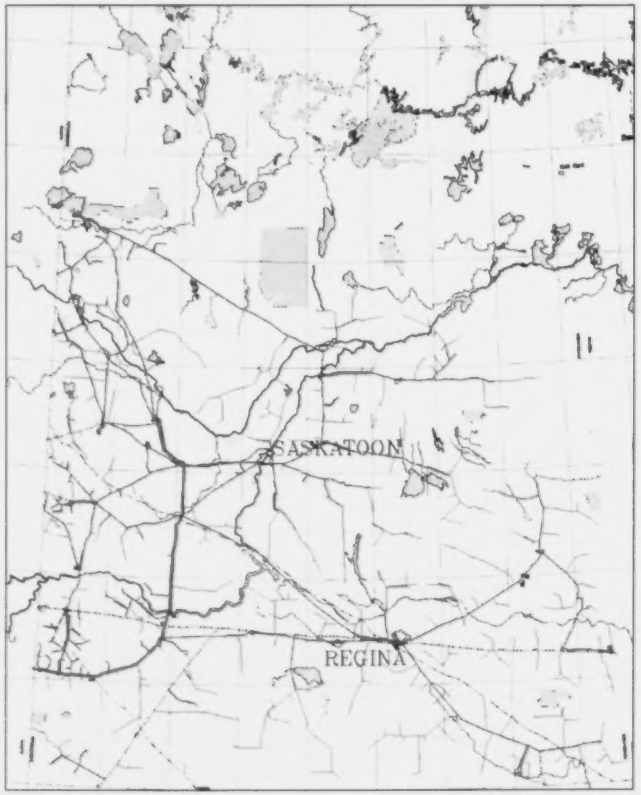
NATURAL GAS VOLUME EQUIVALENTS AT NORMAL ATMOSPHERIC PRESSURE

One Gigajoule (GJ) is the volume of natural gas required to fill an 11 foot by 11 foot by 8 foot room (approximately 1,000 cubic feet).

One Terajoule (TJ) of natural gas would fill a typical professional hockey arena (approximately 1,000,000 cubic feet).

One Petajoule (PJ) is enough natural gas to fill 17 sports stadiums the size of the Rogers Centre, formerly known as the SkyDome (approximately 1,000,000,000 cubic feet).

SASKENERGY INCORPORATED NATURAL GAS TRANSMISSION PIPELINES



SaskEnergy

1000-1777 Victoria Avenue, Regina, Saskatchewan S4P 4K5
www.saskenergy.com